JABIL CIRCUIT INC
Form 4
December 30, 2002

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NYSE

Jabil Circuit, Inc.
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454

1,773

390.5

%

Net interest income (expense) after provision

35,096

27,787

7,309

26.3

%

Noninterest income

2,737

2,256

481

21.3

%

Noninterest expense

22,641

19,551

3,090

15.8

%

Operating income (loss)

$

15,192

$

10,492

$

4,700

44.8

%

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

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

Net interest income was $37.3 million for the year ended December 31, 2017 compared to $28.2 million for the year ended December 31, 2016. The increase in net interest income is due to an increase in total purchases driven by an increase in average number of clients and increased average invoice sizes.  Net funds employed ("NFE") represent the balance of outstanding advances on our customers' accounts against the underlying accounts receivable at a given time. Typically, NFE is equal to the underlying accounts receivable less escrow and cash reserves.  Our Factoring segment experienced a 44.7% increase in overall average net funds employed from $168.4 million for the year ended December 31, 2016 to $243.6 million for the year ended December 31, 2017. A change in the mix within our factored receivables portfolio period over period slightly offset our increased net interest income, as our transportation factoring balances, which generate a higher yield than our non-transportation factoring balances, decreased as a percentage of the overall Factoring segment portfolio to 83.8% at December 31, 2017 compared to 85.4% at December 31, 2016 as we continued to expand our non-transportation factoring product lines in 2017.

59

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

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

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

Asset Management

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

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

Corporate

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

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

60

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

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

Banking

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

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

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

On August 1, 2016, we acquired loans with a fair value of $460.8 million in the ColoEast acquisition, all of which are included in the Banking segment. This fair value included a purchase discount of $12.0 million from the acquisition date unpaid principal balance of the ColoEast loans. This purchase discount incorporated expected credit exposure associated with the acquired loans and as a result, the acquired ColoEast loan portfolio had limited impact on the provision for loan losses for the year ended December 31, 2016. Our provision for loan losses was $6.2 million for the year ended December 31, 2016 compared with $3.2 million for the year ended December 31, 2015. As outstanding loan balances fluctuate period over period, the associated provision for loan losses typically increases or decreases accordingly. In addition, the product types associated with fluctuations within the loan portfolio also contribute to the allowance allocation, as different loan products require different levels of ALLL based upon their credit risk characteristics. Finally, loan loss valuation allowances and charge-offs are recorded on specific at-risk balances, typically consisting of impaired loans. The increase in the provision for loan losses in the year ended December 31, 2016 was primarily due to an increase in recorded net specific reserves and net charge-offs during 2016. We recorded net specific reserves of $1.7 million and net charge-offs of $3.1 million at our Banking segment during the year ended December 31, 2016 compared to net specific reserves of $0.5 million and net charge-offs of $0.3 million recorded during the year ended December 31, 2015. These increases were offset in part by lower levels of organic loan growth recorded during the year ended December 31, 2016 compared to the year ended December 31, 2015. During the year ended December 31, 2016 outstanding loans in our Banking segment, excluding the $460.8 million acquired ColoEast portfolio, increased $277.7 million from December 31, 2015. During the year ended December 31, 2015, outstanding loans in our Banking segment increased $387.6 million from December 31, 2014. The lower increase in outstanding balances within the year ended December 31, 2016 contributes to a lower provision for loan losses compared to the year ended December 31, 2015.

61

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

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

Factoring

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

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

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

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

62

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

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

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

Asset Management

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

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

Corporate

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

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

Financial Condition

Assets

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

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

Loan Portfolio

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

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

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

64

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

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

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

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

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

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

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

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

65

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

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

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

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

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

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

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

| | Less | Five Years | Years | |
|---|---|---|---|---|
| Commercial real estate | $98,361 | $448,801 | $198,731 | $745,893 |
| Construction, land development, land | 54,419 | 60,988 | 19,405 | 134,812 |
| 1-4 family residential properties | 10,736 | 40,681 | 74,410 | 125,827 |
| Farmland | 18,739 | 43,666 | 117,736 | 180,141 |
| Commercial | 355,045 | 502,446 | 63,321 | 920,812 |
| Factored receivables | 374,410 | — | — | 374,410 |
| Consumer | 3,398 | 10,964 | 16,769 | 31,131 |
| Mortgage warehouse | 297,830 | — | — | 297,830 |
| | $1,212,938 | $1,107,546 | $490,372 | $2,810,856 |

| | | |
|---|---|---|
| Sensitivity of loans to changes in interest rates: | | |
| Predetermined (fixed) interest rates | $864,729 | $195,130 |
| Floating interest rates | 242,817 | 295,242 |
| Total | $1,107,546 | $490,372 |

66

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

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

Nonperforming Assets

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

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

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

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

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

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

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

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

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

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

68

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

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

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

Allowance for Loan and Lease Losses

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

For the specific component, the allowance for loan losses includes loans where management has concerns about the borrower's ability to repay and on individually analyzed loans found to be impaired. Management evaluates current information and events regarding a borrower's ability to repay its obligations and considers a loan to be impaired when the ultimate collectability of amounts due, according to the contractual terms of the loan agreement, is in doubt. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If an impaired loan is collateral-dependent, the fair value of the collateral, less the estimated cost to sell, is used to determine the amount of impairment. If an impaired loan is not collateral-dependent, the impairment amount is determined using the negative difference, if any, between the estimated discounted cash flows and the loan amount due. For impaired loans, the amount of the impairment can be adjusted, based on current data, until such time as the actual basis is established by acquisition of the collateral or until the basis is collected. Impairment losses are reflected in the allowance for loan losses through a charge to the provision for credit losses. Subsequent recoveries are credited to the allowance for loan losses. Cash receipts for accruing loans are applied to principal and interest under the contractual terms of the loan agreement. Cash receipts on impaired loans for which the accrual of interest has been discontinued are applied first to principal.

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

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

69

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

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

Analysis of the Allowance for Loan and Lease Losses

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

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

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

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

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

70

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

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

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

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

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

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

72

Assets Held for Sale; Including Loans Held for Sale

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

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

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

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

Securities

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

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

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

$32.4 million cited above.

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

73

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

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

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

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

Liabilities

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

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

Deposits

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

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

74

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

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

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

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

Other Borrowings

Customer Repurchase Agreements

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

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

75

FHLB Advances

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

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

Subordinated Notes

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

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

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

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

Junior Subordinated Debentures

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

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

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

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

76

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

Capital Resources and Liquidity Management

Capital Resources

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

Liquidity Management

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

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

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

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

Regulatory Capital Requirements

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

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

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

77

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

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

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

Contractual Obligations

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

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

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

Off Balance Sheet Arrangements

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

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

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

Critical Accounting Policies and Estimates

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

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

Adoption of New Accounting Standards

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

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

Asset/Liability Management and Interest Rate Risk

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

As a financial institution, our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the fair value of all interest earning assets and interest bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair values.

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

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

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

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

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

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

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

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

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

80

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

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

Dallas, Texas

Opinion on the Financial Statements

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

Basis for Opinion

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

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

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

/s/ Crowe Horwath LLP

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

Dallas, Texas

February 13, 2018

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $59,114 | $38,613 |
| Interest bearing deposits with other banks | 75,015 | 75,901 |
| Total cash and cash equivalents | 134,129 | 114,514 |
| Securities - available for sale | 255,609 | 275,029 |
| Securities - held to maturity, fair value $7,527 and $30,821, respectively | 8,557 | 29,352 |
| Loans, net of allowance for loan and lease losses of $18,748 and $15,405, respectively | 2,792,108 | 2,012,219 |
| Assets held for sale | 71,362 | — |
| Federal Home Loan Bank stock, at cost | 16,006 | 8,430 |
| Premises and equipment, net | 62,861 | 45,460 |
| Other real estate owned, net | 9,191 | 6,077 |
| Goodwill | 44,126 | 28,810 |
| Intangible assets, net | 19,652 | 17,721 |
| Bank-owned life insurance | 44,364 | 36,509 |
| Deferred tax asset, net | 8,959 | 18,825 |
| Other assets | 32,109 | 48,121 |
| Total assets | $3,499,033 | $2,641,067 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Deposits | | |
| Noninterest bearing | $564,225 | $363,351 |
| Interest bearing | 2,057,123 | 1,652,434 |
| Total deposits | 2,621,348 | 2,015,785 |
| Customer repurchase agreements | 11,488 | 10,490 |
| Federal Home Loan Bank advances | 365,000 | 230,000 |
| Subordinated notes | 48,828 | 48,734 |
| Junior subordinated debentures | 38,623 | 32,740 |
| Other liabilities | 22,048 | 13,973 |
| Total liabilities | 3,107,335 | 2,351,722 |
| Commitments and contingencies - See Notes 13 and 14 | | |
| Stockholders' equity - See Note 18 | | |
| Preferred Stock | 9,658 | 9,746 |
| Common stock | 209 | 182 |
| Additional paid-in-capital | 264,855 | 197,157 |
| Treasury stock, at cost | (1,784) | (1,374) |
| Retained earnings | 119,356 | 83,910 |
| Accumulated other comprehensive income (loss) | (596) | (276) |
| Total stockholders’ equity | 391,698 | 289,345 |

| | | |
|---|---|---|
| Total liabilities and stockholders' equity | $3,499,033 | $2,641,067 |

See accompanying notes to consolidated financial statements.

82

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2017, 2016 and 2015

(Dollar amounts in thousands, except per share amounts)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Interest and dividend income: | | | |
| Loans, including fees | $121,567 | $84,244 | $61,637 |
| Factored receivables, including fees | 47,177 | 35,213 | 33,944 |
| Securities | 6,823 | 4,309 | 2,558 |
| FHLB & FRB stock | 207 | 73 | 156 |
| Cash deposits | 1,450 | 653 | 465 |
| Total interest income | 177,224 | 124,492 | 98,760 |
| Interest expense: | | | |
| Deposits | 13,082 | 9,156 | 6,906 |
| Subordinated notes | 3,344 | 835 | — |
| Junior subordinated debentures | 1,955 | 1,427 | 1,121 |
| Other borrowings | 3,159 | 716 | 82 |
| Total interest expense | 21,540 | 12,134 | 8,109 |
| Net interest income | 155,684 | 112,358 | 90,651 |
| Provision for loan losses | 11,628 | 6,693 | 4,529 |
| Net interest income after provision for loan losses | 144,056 | 105,665 | 86,122 |
| Noninterest income: | | | |
| Service charges on deposits | 4,181 | 3,447 | 2,732 |
| Card income | 3,822 | 2,732 | 2,234 |
| Net OREO gains (losses) and valuation adjustments | (850) | (1,427) | (108) |
| Net gains (losses) on sale of securities | 35 | (56) | 259 |
| Net gains on sale of loans | — | 16 | 1,630 |
| Fee income | 2,503 | 2,240 | 1,931 |
| Insurance commissions | 2,981 | 1,295 | 296 |
| Bargain purchase gain | — | — | 15,117 |
| Gain on sale of subsidiary | 20,860 | — | — |
| Asset management fees | 1,717 | 6,574 | 5,646 |
| Other | 5,407 | 6,135 | 3,560 |
| Total noninterest income | 40,656 | 20,956 | 33,297 |
| Noninterest expense: | | | |
| Salaries and employee benefits | 72,696 | 54,531 | 50,175 |
| Occupancy, furniture and equipment | 9,833 | 7,301 | 6,259 |
| FDIC insurance and other regulatory assessments | 1,201 | 913 | 1,086 |
| Professional fees | 7,192 | 5,529 | 4,429 |
| Amortization of intangible assets | 5,201 | 3,782 | 3,979 |
| Advertising and promotion | 3,226 | 2,716 | 2,061 |
| Communications and technology | 8,843 | 6,491 | 4,360 |
| Other | 15,422 | 11,849 | 9,516 |

| | | | |
|---|---|---|---|
| Total noninterest expense | 123,614 | 93,112 | 81,865 |
| Net income before income tax | 61,098 | 33,509 | 37,554 |
| Income tax expense | 24,878 | 12,809 | 8,421 |
| Net income | 36,220 | 20,700 | 29,133 |
| Dividends on preferred stock | (774 ) | (887 ) | (780 ) |
| Net income available to common stockholders | $35,446 | $19,813 | $28,353 |
| Earnings per common share | | | |
| Basic | $1.85 | $1.11 | $1.60 |
| Diluted | $1.81 | $1.10 | $1.57 |

See accompanying notes to consolidated financial statements.

83

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2017, 2016 and 2015

(Dollar amounts in thousands, except per share amounts)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net income | $36,220 | $20,700 | $29,133 |
| Other comprehensive income: | | | |
| Unrealized gains (losses) on securities available for sale: | | | |
| Unrealized holding gains (losses) arising during the period | (298) | (934) | (787) |
| Reclassification of amount realized through sale of securities | (35) | 56 | (259) |
| Tax effect | 13 | 325 | 372 |
| Total other comprehensive income (loss) | (320) | (553) | (674) |
| Comprehensive income | 35,900 | 20,147 | 28,459 |

See accompanying notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31, 2017, 2016 and 2015

(Dollar amounts in thousands, except per share amounts)

| | Preferred Stock Liquidation Preference | Common Stock | | Additional Paid-in- | Treasury Stock | | Retained | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Amount | Shares Outstanding | Par Amount | Capital | Shares Outstanding | Cost | Earnings | (Loss) | Equity |
| Balance, January 1, 2015 | $ 9,746 | 17,963,783 | $ 180 | $ 191,049 | 10,984 | $ (161) | $ 35,744 | $ 951 | $ 237,509 |
| Issuance of restricted stock awards | — | 77,956 | 1 | (1) | — | — | — | — | — |
| Forfeiture of restricted stock awards | — | (3,632) | — | 56 | 3,632 | (56) | — | — | — |
| Excess tax benefit on restricted stock vested | — | — | — | 116 | — | — | — | — | 116 |
| Stock based compensation | — | — | — | 3,077 | — | — | — | — | 3,077 |
| Purchase of treasury stock | — | (19,907) | — | — | 19,907 | (343) | — | — | (343) |
| Series A Preferred dividends | — | — | — | — | — | — | (365) | — | (365) |
| Series B Preferred dividends | — | — | — | — | — | — | (415) | — | (415) |
| Net income | — | — | — | — | — | — | 29,133 | — | 29,133 |
| Other comprehensive income (loss) | — | — | — | — | — | — | — | (674) | (674) |
| Balance, December 31, 2015 | $ 9,746 | 18,018,200 | $ 181 | $ 194,297 | 34,523 | $ (560) | $ 64,097 | $ 277 | $ 268,038 |
| Issuance of restricted stock awards | — | 101,642 | 1 | (1) | — | — | — | — | — |
| | — | (9,820) | — | 160 | 9,820 | (160) | — | — | — |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Forfeiture of restricted stock awards | | | | | | | | | |
| Excess tax benefit on restricted stock vested | — | — | — | 334 | — | — | — | — | 334 |
| Stock based compensation | — | — | — | 2,367 | — | — | — | — | 2,367 |
| Purchase of treasury stock | — | (31,775 ) | — | — | 31,775 | (654 ) | — | — | (654 ) |
| Series A Preferred dividends | — | — | — | — | — | — | (366 ) | — | (366 ) |
| Series B Preferred dividends | — | — | — | — | — | — | (417 ) | — | (417 ) |
| TARP Preferred Stock assumed in acquisition | 10,500 | — | — | — | — | — | — | — | 10,500 |
| TARP Preferred dividends | — | — | — | — | — | — | (104 ) | — | (104 ) |
| Redemption of TARP Preferred Stock | (10,500 ) | — | — | — | — | — | — | — | (10,500 ) |
| Net income | — | — | — | — | — | — | 20,700 | — | 20,700 |
| Other comprehensive income (loss) | — | — | — | — | — | — | — | (553 ) | (553 ) |
| Balance, December 31, 2016 | $ 9,746 | 18,078,247 | $ 182 | $ 197,157 | 76,118 | $ (1,374 ) | $ 83,910 | $ (276 ) | $ 289,345 |
| Issuance of common stock, net of expenses | — | 2,530,000 | 25 | 65,484 | — | — | — | — | 65,509 |
| Issuance of restricted stock awards | — | 45,732 | — | — | — | — | — | — | — |
| Stock based compensation | — | — | — | 1,801 | — | — | — | — | 1,801 |
| Forfeiture of restricted stock awards | — | (1,636 ) | — | 44 | 1,636 | (44 ) | — | — | — |
| Stock option exercises, net | — | 23,059 | — | 283 | — | — | — | — | 283 |
| Warrant exercises, net | — | 153,134 | 2 | (2 ) | — | — | — | — | — |
| Purchase of treasury stock | — | (14,197 ) | — | — | 14,197 | (366 ) | — | — | (366 ) |
| Preferred stock converted to | (88 ) | 6,106 | — | 88 | — | — | — | — | — |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| common stock | | | | | | | | | |
| Series A Preferred dividends | — | — | — | — | — | — | (365) | — | (365) |
| Series B Preferred dividends | — | — | — | — | — | — | (409) | — | (409) |
| Net income | — | — | — | — | — | — | 36,220 | — | 36,220 |
| Other comprehensive income (loss) | — | — | — | — | — | — | — | (320) | (320) |
| Balance, December 31, 2017 | $9,658 | 20,820,445 | $209 | $264,855 | 91,951 | $(1,784) | $119,356 | $(596) | $391,698 |

See accompanying notes to consolidated financial statements.

85

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017, 2016 and 2015

(Dollar amounts in thousands, except per share amounts)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $36,220 | $20,700 | $29,133 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation | 4,001 | 2,817 | 2,143 |
| Net accretion on loans and deposits | (7,071) | (7,482) | (4,928) |
| Amortization of subordinated notes issuance costs | 94 | 23 | — |
| Amortization of junior subordinated debentures | 413 | 325 | 264 |
| Net amortization on securities | 638 | 2,285 | 590 |
| Amortization of intangible assets | 5,201 | 3,782 | 3,979 |
| Deferred taxes | 10,164 | 1,887 | (280) |
| Provision for loan losses | 11,628 | 6,693 | 4,529 |
| Stock based compensation | 1,801 | 2,367 | 3,077 |
| Origination of loans held for sale | — | (891) | (59,261) |
| Proceeds from sale of loans originated for sale | — | 2,248 | 62,838 |
| Net (gains) losses on sale of securities | (35) | 56 | (259) |
| Net (gains) losses on loans transferred to loans held for sale | 80 | (154) | — |
| Net gains on sale of loans | — | (16) | (1,630) |
| Net OREO (gains) losses and valuation adjustments | 850 | 1,427 | 108 |
| Income from CLO warehouse investments | (2,226) | (3,184) | (1,151) |
| Bargain purchase gain | — | — | (15,117) |
| Gain on sale of subsidiary | (20,860) | — | — |
| (Increase) decrease in other assets | 1,515 | 1,197 | 1,075 |
| Increase (decrease) in other liabilities | 4,860 | (3,097) | 186 |
| Net cash provided by (used in) operating activities | 47,273 | 30,983 | 25,296 |
| Cash flows from investing activities: | | | |
| Purchases of securities available for sale | (8,042) | (19,942) | (30,544) |
| Proceeds from sales of securities available for sale | 32,441 | 34,338 | 17,635 |
| Proceeds from maturities, calls, and pay downs of securities available for sale | 89,443 | 31,847 | 11,132 |
| Purchases of securities held to maturity | (5,092) | (29,117) | — |
| Proceeds from maturities, calls, and pay downs of securities held to maturity | 28,216 | 136 | — |
| Purchases of loans (shared national credits) | — | (995) | (28,619) |
| Proceeds from sale of loans | 3,834 | 24,538 | — |
| Net change in loans | (586,120) | (295,315) | (252,390) |
| Purchases of premises and equipment, net | (7,953) | (4,325) | (2,437) |
| Net proceeds from sale of OREO | 5,179 | 3,320 | 3,881 |
| Net cash paid for CLO warehouse investments | (10,000) | (25,000) | (20,500) |
| Net proceeds from CLO warehouse investments | 30,000 | 25,500 | 2,450 |

| | | | |
|---|---|---|---|
| (Purchases) redemptions of FHLB and Federal Reserve Bank stock, net | (7,261) | (4,062) | 1,085 |
| Cash paid for acquisitions, net of cash acquired | 45,315 | (14,479) | (127,591) |
| Proceeds from sale of loans obtained through Doral Money Inc. acquisition | — | — | 36,765 |
| Proceeds from sale of subsidiary, net | 10,269 | — | — |
| Net cash provided by (used in) investing activities | (379,771) | (273,556) | (389,133) |
| Cash flows from financing activities: | | | |
| Net increase in deposits | 151,463 | 114,002 | 83,998 |
| Increase (decrease) in customer repurchase agreements | 998 | 1,173 | 35 |
| Increase (decrease) in Federal Home Loan Bank advances | 135,000 | 100,000 | 127,000 |
| Proceeds from issuance of subordinated notes, net | — | 48,676 | — |
| Proceeds from issuance of other borrowings | — | — | 99,975 |
| Repayment of other borrowings | — | — | (1,659) |
| Issuance of common stock, net of expenses | 65,509 | — | — |
| Purchase of treasury stock | (366) | (654) | (343) |
| Dividends on preferred stock | (774) | (887) | (780) |
| Redemption of TARP preferred stock | — | (10,500) | — |
| Stock option exercises | 283 | — | — |
| Net cash provided by (used in) financing activities | 352,113 | 251,810 | 308,226 |
| Net increase (decrease) in cash and cash equivalents | 19,615 | 9,237 | (55,611) |
| Cash and cash equivalents at beginning of period | 114,514 | 105,277 | 160,888 |
| Cash and cash equivalents at end of period | $134,129 | $114,514 | $105,277 |

See accompanying notes to consolidated financial statements.

86

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017, 2016 and 2015

(Dollar amounts in thousands, except per share amounts)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Supplemental cash flow information: | | | |
| Interest paid | $20,393 | $10,453 | $7,864 |
| Income taxes paid, net | $12,890 | $10,942 | $5,878 |
| Supplemental noncash disclosures: | | | |
| Loans transferred to OREO | $6,585 | $470 | $743 |
| Premises transferred to OREO | $276 | $2,215 | $— |
| Loans transferred to loans held for sale | $3,914 | $24,384 | $— |
| Consideration received from sale of subsidiary | $12,123 | $— | $— |
| Assets transferred to assets held for sale | $71,362 | $— | $— |
| Securities transferred in satisfaction of other borrowings | $— | $— | $98,316 |
| Loan purchases, not yet settled (shared national credits) | $— | $— | $995 |
| Held to maturity securities transferred to available for sale | $— | $— | $747 |

See accompanying notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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 factoring 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 31, 2017 the Company sold its membership interest 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 the Company’s consolidated financial statements.

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. THF operates within the TBK Bank, SSB subsidiary. The decision to sell THF was made prior to the end of the year, and at December 31, 2017, the fair value of the Disposal Group exceeded its carrying amount. As a result of this decision, the carrying amount of the Disposal Group was transferred to assets held for sale. See Note 2 – Business Combinations and Divestitures for additional information pertaining to the Disposal Group and the impact of the transaction on the Company’s consolidated financial statements.

### Principles of Consolidation and Basis of Presentation

The Company consolidates subsidiaries in which it holds, directly or indirectly, a controlling financial interest. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under U.S. generally accepted accounting principles (“GAAP”). Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. The Company consolidates voting interest entities in which it has at least a majority of the voting interest. Variable interest entities (“VIEs”) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has both the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE.

In consolidation, all significant intercompany accounts and transactions are eliminated. Investments in unconsolidated entities are accounted for using the equity method of accounting when the Company has the ability to exercise significant influence over operating and financing decisions. Investments that do not meet the criteria for equity method accounting are accounted for using the cost method of accounting.

The accounting and reporting policies of the Company and its subsidiaries conform to GAAP and general practice within the banking industry. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. The Company uses the accrual basis of accounting for financial reporting purposes.

Use of Estimates

To prepare financial statements in conformity with GAAP management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, other short term investments and federal funds sold. All highly liquid investments with an initial maturity of less than 90 days are considered to be cash equivalents. Certain items, including loan and deposit transactions, customer repurchase agreements, and FHLB advances and repayments, are presented net in the statement of cash flows.

Securities

The Company determines the classification of securities at the time of purchase. Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of tax.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method. Amortization of premiums and discounts are recognized in interest income over the period to maturity using the interest method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers' financial condition. The Company conducts regular reviews of the bond agency ratings of securities and considers whether the securities were issued by or have principal and interest payments guaranteed by the federal government or its agencies. These reviews focus on the underlying rating of the issuer and also include the insurance rating of securities that have an insurance component or guarantee. The ratings and financial condition of the issuers are monitored, as well as the financial condition and ratings of the insurers and guarantors.

If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized through earnings, and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans Held for Sale

The Company elects the fair value option for recording mortgage loans originated and intended for sale in the secondary market in accordance with Accounting Standards Codification ("ASC") 825, "Financial Instruments". The fair value of mortgage loans held for sale is determined based on outstanding commitments from investors to purchase such loans and upon prevailing market rates. Increases or decreases in the fair value of these loans held for sale, if any, are charged to earnings through net gains on sale of loans. Mortgage loans held for sale are generally sold with servicing rights released. Gains and losses on sales of mortgage loans are based on the difference between the final selling price and the fair value of the related loan sold. The Company originated and sold mortgage loans during the years ended December 31, 2016 and 2015 and these activities are reflected in the Consolidated Statements of Income and the Consolidated Statements of Cash Flows for these respective years; however, there were no mortgage loans held for sale carried on the Consolidated Balance Sheets at December 31, 2017 and 2016 as the Company made the decision to exit the residential mortgage production business in the fourth quarter of 2015.

Management occasionally transfers non-mortgage loans from held for investment to held for sale. Gains or losses on the sale of these loans are recorded in noninterest income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the unpaid principal balance outstanding, net of unearned income, deferred loan fees and costs, and any direct principal charge-offs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income over the remaining life of the loan without anticipating prepayments.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement or any portion thereof remains unpaid after the due date of the scheduled payment. Loans are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful. The accrual of interest income on loans is typically discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection, or if full collection of interest or principal becomes uncertain. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for a loan placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Acquired Loans

Acquired loans are recorded at fair value at the date of acquisition with no initial valuation allowance based on a discounted cash flow methodology that considers various factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting the Company’s assessment of risk inherent in the cash flow estimates. Certain larger purchased loans are individually evaluated while certain purchased loans are grouped together according to similar risk characteristics and are treated in the aggregate when applying various valuation techniques. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

Loans acquired in a business combination that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable are considered purchased credit impaired (“PCI”). PCI loans are individually evaluated and recorded at fair value at the date of acquisition with no initial valuation allowance based on a discounted cash flow methodology that considers various factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting the Company’s assessment of risk inherent in the cash flow estimates. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the “accretable yield,” is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “nonaccretable difference,” are not recognized on the balance sheet and do not result in any yield adjustments, loss accruals or valuation allowances. Increases in expected cash flows, including prepayments, subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairment. Valuation allowances on PCI loans reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received).

For acquired loans not deemed credit-impaired at acquisition, the differences between the initial fair value and the unpaid principal balance are recognized as interest income on a level-yield basis over the lives of the related loans. Subsequent to the acquisition date, methods utilized to estimate the required allowance for loan and lease losses for these loans is similar to originated loans; however, a provision for credit losses will be recorded only to the extent the required allowance exceeds any remaining purchase discounts. Once an acquired loan undergoes new underwriting and meets the criteria for a new loan, such as in the case of a loan renewal, any remaining fair value adjustments are accreted into interest income and the loan establishes a new amortized cost basis that is fully subject to the Company's allowance for loan and lease loss methodology.

Factored Receivables

The Company purchases invoices from its factoring clients in schedules or batches. Cash is advanced to the client to the extent of the applicable advance rate, less fees, as set forth in the individual factoring agreements. The face value of the invoices purchased are recorded by the Company as factored receivables, and the unadvanced portions of the invoices purchased, less fees, are considered client reserves. The client reserves are held to settle any payment disputes or collection shortfalls, may be used to pay clients' obligations to various third parties as directed by the client, are periodically released to or withdrawn by clients, and are reported as deposits.

Unearned factoring fees and unearned net origination fees are deferred and recognized over the weighted average collection period for each client. Subsequent factoring fees are recognized in interest income as incurred by the client and deducted from the clients' reserve balances.

Other factoring-related fees, which include wire transfer fees, carrier payment fees, fuel advance fees, and other similar fees, are reported by the Company as non-interest income as incurred by the client.

90

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Allowance for Loan and Lease Losses

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

For the specific component, the allowance for loan and lease losses includes loans where management has concerns about the borrower's ability to repay and on individually analyzed loans found to be impaired. Management evaluates current information and events regarding a borrower's ability to repay its obligations and considers a loan to be impaired when the ultimate collectability of amounts due, according to the contractual terms of the loan agreement, is in doubt. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If an impaired loan is collateral-dependent, the fair value of the collateral, less the estimated cost to sell, is used to determine the amount of impairment. If an impaired loan is not collateral-dependent, the impairment amount is determined using the negative difference, if any, between the estimated discounted cash flows and the loan amount due. For impaired loans, the amount of the impairment can be adjusted, based on current data, until such time as the actual basis is established by acquisition of the collateral or until the basis is collected. Impairment losses are reflected in the allowance for loan and lease losses through a charge to the provision for credit losses. Subsequent recoveries are credited to the allowance for loan and lease losses. Cash receipts for accruing loans are applied to principal and interest under the contractual terms of the loan agreement. Cash receipts on impaired loans for which the accrual of interest has been discontinued are applied first to principal.

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

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

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

The following loan portfolio categories have been identified for purposes of determining the general component of the ALLL:

Commercial Real Estate — This category of loans consists of the following loan types:

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Non-farm Non-residential — This category includes real estate loans for a variety of commercial property types and purposes, including owner occupied commercial real estate loans primarily secured by commercial office or industrial buildings, warehouses or retail buildings where the owner of the building occupies the property. Repayment terms vary considerably, interest rates are fixed or variable, and are structured for full, partial, or no amortization of principal.  This category also includes investment real estate loans that are primarily secured by office and industrial buildings, warehouses, small retail shopping centers and various special purpose properties. Generally, these types of loans are thought to involve a greater degree of credit risk than owner occupied commercial real estate as they are more sensitive to adverse economic conditions.

Multi-family residential — Investment real estate loans are primarily secured by non-owner occupied apartment or multifamily residential buildings. Generally, these types of loans are thought to involve a greater degree of credit risk than owner occupied commercial real estate as they are more sensitive to adverse economic conditions.

Construction, land development, land —This category of loans consists of loans to finance the ground up construction, improvement and/or carrying for sale after the completion of construction of owner occupied and non-owner occupied residential and commercial properties, and loans secured by raw or improved land. The repayment of construction loans is generally dependent upon the successful completion of the improvements by the builder for the end user, or sale of the property to a third party. Repayment of land secured loans are dependent upon the successful development and sale of the property, the sale of the land as is, or the outside cash flow of the owners to support the retirement of the debt.

1-4 family residential properties — This category of loans includes both first and junior liens on residential real estate. Home equity revolving lines of credit and home equity term loans are included in this group of loans.

Farmland — These loans are principally loans to purchase farmland.

Commercial — Commercial loans are loans for commercial, corporate and business purposes. The Company’s commercial business loan portfolio is comprised of loans for a variety of purposes and across a variety of industries.  These loans include general commercial and industrial loans, loans to purchase capital equipment, agriculture operating loans and other business loans for working capital and operational purposes.  Commercial loans are generally secured by accounts receivable, inventory and other business assets.  Commercial loans also include shared national credits purchased by the Company.

A portion of the commercial loan portfolio consists of specialty commercial finance products as follows:

Equipment — Equipment finance loans are commercial loans primarily secured by new or used revenue producing, essential-use equipment from major manufacturers that is movable, may be used in more than one type of business, and generally has broad resale markets. Core markets include transportation, construction, and waste. Loan terms do not exceed the economic life of the equipment and typically are 60 months or less.

Asset-based Lending — These loans are originated to borrowers to support general working capital needs.  The asset-based loan structure involves advances of loan proceeds against a borrowing base which typically consists of accounts receivable, identified readily marketable inventory, or other collateral of the borrower.  The maximum amount a customer may borrow at any time is fixed as a percentage of the borrowing base outstanding.

Premium Finance — Loans that provide customized premium financing solutions for the acquisition of property and casualty insurance coverage. In effect, these short term premium finance loans allow insureds to pay their insurance premiums over the life of the underlying policy, instead of paying the entire premium at the outset.

Factored Receivables — The Company operates as a factor by purchasing accounts receivable from its clients, then collecting the receivable from the account debtor. The Company's smaller factoring relationships are typically structured as "non-recourse" relationships (i.e., the Company retains the credit risk associated with the ability of the account debtor on a purchased invoice to ultimately make payment) and the Company's larger factoring relationships are typically structured as "recourse" relationships (i.e., the Company's client agrees to repurchase any invoices for which payment is not ultimately received from the account debtor). Advances initially made to the client to acquire the receivables are typically at a discount to the invoice value. The discount balance is held in client reserves, net of the Company's compensation. The client reserves are held to settle any payment disputes or collection shortfalls, may be used to pay clients' obligations to various third parties as directed by the client, are periodically released to or withdrawn by clients, and are reported as deposits.

Consumer — Loans used for personal use typically on an unsecured basis.

Mortgage Warehouse — Mortgage Warehouse facilities are provided to unaffiliated mortgage origination companies and are collateralized by 1-4 family residential loans. The originator closes new mortgage loans with the intent to sell these loans to third party investors for a profit. The Company provides funding to the mortgage companies for the period between the origination and their sale of the loan. The Company has a policy that requires that it separately validate that each residential mortgage loan was underwritten consistent with the underwriting requirements of the final investor or market standards prior to advancing funds. The Company is repaid with the proceeds received from sale of the mortgage loan to the final investor.

Federal Home Loan Bank (“FHLB”) Stock

The Company is a member of the FHLB system.  Members of the FHLB are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, are restricted as to redemption, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Premises and Equipment

Land is carried at cost. Depreciable assets are stated at cost less accumulated depreciation. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Buildings and related components are generally depreciated using the straight-line method with useful lives ranging from thirty to forty years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from three to ten years.

Foreclosed Assets

Assets acquired through loan foreclosure are initially recorded at the lower of the recorded investment in the loan at the time of foreclosure or the fair value less costs to sell, establishing a new cost basis. Any write-down in the carrying value of a property at the time of acquisition is charged-off to the allowance for loan and lease losses. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. In accordance with ASC 350-20, "Intangibles- Goodwill and Other", the Company evaluates goodwill for impairment on an annual basis or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount, in accordance with ASC 350-20. The Company’s annual goodwill impairment testing date is October 1.

The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining the need to perform the two-step test for goodwill impairment (the qualitative method). If the qualitative method cannot be used or if it determines, based on the qualitative method, that the fair value is more likely than not less than the carrying amount, the Company uses the two-step test. Under the two-step test, the Company compares the estimated fair value of a reporting unit with its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. Step two of the goodwill impairment test compares the implied estimated fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of goodwill for that reporting unit exceeds the implied fair value of that unit’s goodwill, an impairment loss is recognized in an amount equal to that excess. Our annual goodwill impairment test did not identify any goodwill impairment for the years ended December 31, 2017 and 2016.

Identifiable Intangible Assets

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. The Company's intangible assets primarily relate to core deposits and customer relationships. Intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Intangible assets, premises and equipment and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value with a charge to amortization of intangible assets.

93

Bank Owned Life Insurance

The Company has purchased life insurance policies on certain key employees. The purchase of these life insurance policies allows the Company to use tax-advantaged rates of return. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Income Taxes

The Company files a consolidated tax return with its subsidiaries and is taxed as a C corporation. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Company recognizes interest and penalties related to income tax matters in income tax expense.

Fair Values of Financial Instruments

In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that may use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and/or the Company’s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. Changes in assumptions or in market conditions could significantly affect these estimates.

In the ordinary course of business, the Company generally does not sell or transfer non-impaired loans and deposits. As such, the disclosures that present the December 31, 2017 and 2016 estimated fair value for non-impaired loans and deposits are highly judgmental and may not represent amounts to be received if the Company were to sell or transfer such items.

Asset Management Fees

On March 31, 2017, the Company sold its membership interests in TCA. At the date of sale, the Company ceased to provide fee based asset management services. Prior to the sale of TCA, asset management fee income was recognized through the Company’s collateralized loan obligation (“CLO”) asset management business operated by TCA and consisted of senior (or base) asset management fees, subordinated management fees, and performance-based incentive fees. Senior and subordinated management fees were based upon a fixed fee rate applied to the amount of outstanding assets being managed by TCA and were accrued by the Company as earned. Performance-based incentive fees were variable in nature and dependent upon the performance of a managed CLO above a prescribed level. The Company did not accrue for performance-based incentive fees that were not finalized until the end of a specified contract period, but recorded such revenues only when final payment was confirmed and related services were completed.  The Company did not recognized any revenue that is at risk due to future asset management performance contingencies.

TCA also entered into transactions whereby it earned asset management fee income through the provision of middle and back office services to other CLO asset managers.

Operating Segments

The Company’s reportable segments are comprised of strategic business units primarily based upon industry categories and to a lesser extent, the core competencies relating to product origination, distribution methods, operations and servicing. Segment determination also considered organizational structure and our segment reporting is consistent with the presentation of financial information to the chief operating decision maker to evaluate segment performance, develop strategy, and allocate resources. Our chief operating decision maker is the Chief Executive Officer of Triumph Bancorp, Inc. We have determined our reportable segments are Banking, Factoring, Asset Management, and Corporate.

94

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The banking segment includes the operations of TBK Bank. The banking segment derives its revenue principally from investments in interest earning assets as well as noninterest income typical for the banking industry. The banking segment also includes commercial factoring services which are originated through the commercial finance division of TBK Bank.

The factoring segment includes the operations of TBC with revenue derived from factoring services.

The asset management segment includes the operations of TCA with revenue derived from fees for managing CLO funds and providing middle and back office services to other CLO managers. On March 31, 2017 the Company sold its membership interests in TCA. As a result, the asset management segment had no operations or assets subsequent to March 31, 2017.

The corporate segment includes holding company financing and investment activities and management and administrative expenses to support the overall operations of the Company.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income includes unrealized gains and losses on securities available for sale, net of taxes, which are also recognized as a separate component of equity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe such matters exist that will have a material effect on the financial statements.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be relinquished when (i) the assets have been isolated from the Company, (ii) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through either (a) an agreement that entitles and obligates the Company to repurchase or redeem them before their maturity or (b) the ability to unilaterally cause the holder to return specific assets.

Stock Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company’s common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Earnings Per Common Share

Basic earnings per common share is net income less dividends on preferred stock divided by the weighted average number of common shares outstanding during the period excluding nonvested restricted stock awards. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock warrants, restricted stock awards, stock options, and preferred shares that are convertible to common shares.

Advertising Costs

Advertising costs are expensed as incurred.

95

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Adoption of New Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). The FASB issued this ASU to improve the accounting for share-based payments. ASU 2016-09 simplifies several aspects of the accounting for share-based payment award transactions, including: the presentation of income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, and calculation of diluted earnings per share. The new standard was effective for the Company on January 1, 2017. Adoption of ASU 2016-09 did not have a material impact on the Company's financial statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities" ("ASU 2017-08"). These amendments shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require 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. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. As permitted by the amendment, the Company elected to early adopt the provisions of this ASU as of January 1, 2017. Adoption of ASU 2017-08 did not have a material impact on the Company's consolidated financial statements.

Newly Issued, But Not Yet Effective Accounting Standards

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("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 and management has completed its analysis of the impact of the standard's adoption. Adoption of the ASU did not have a significant impact on the Company's consolidated financial statements and related disclosures. 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 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 (Subtopic 825-10): 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 is not expected to have a significant impact on our consolidated financial statements and related disclosures.

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 December 31, 2017, the Company had contractual operating lease commitments of approximately $5,969,000, before considering renewal options that are generally present.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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 a business combination.

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. The decision to sell THF was made prior to the end of the year, and at December 31, 2017, the fair value of the Disposal Group exceeded its carrying amount. As a result of this decision, the carrying amount of the Disposal Group was transferred to assets held for sale.

A summary of the carrying amount of the assets in the Disposal Group transferred to held for sale is as follows:

| (Dollars in thousands) | |
|---|---|
| Loans | $70,771 |
| Allowance for loan and lease losses | (2,103 ) |
| Loans, net of allowance for loan and lease losses | 68,668 |
| Premises and equipment, net | 33 |
| Goodwill | 1,024 |
| Intangible assets, net | 1,007 |
| Other assets | 630 |
| Total carrying amount | $71,362 |

The loans in the Disposal Group transferred to assets held for sale were previously included in the commercial loan portfolio. Loans in the Disposal Group with a recorded investment of $245,000 were classified as nonaccrual and impaired without a valuation allowance, and loans in the Disposal Group with a recorded investment of $5,431,000 were classified as substandard at December 31, 2017. The Disposal Group is included in the Banking segment.

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.

97

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 | $38,473 |
| Securities | 97,687 |
| Loans | 171,199 |
| FHLB stock | 315 |
| Premises and equipment | 6,238 |
| Other real estate owned | 2,282 |
| Intangible assets | 6,072 |
| Bank-owned life insurance | 7,153 |
| Other assets | 1,882 |
| | 331,301 |
| Liabilities assumed: | |
| Deposits | 293,398 |
| Junior subordinated debentures | 5,470 |
| Other liabilities | 2,881 |
| | 301,749 |
| Fair value of net assets acquired | 29,552 |
| Consideration transferred | 40,075 |
| Goodwill | $10,523 |

The Company has recognized goodwill of $10,523,000, 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.

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 following presents information at the acquisition date for non-PCI loans acquired in the transaction:

| (Dollars in thousands) | |
|---|---|
| Contractually required principal and interest payments | $214,139 |
| Contractual cash flows not expected to be collected | $3,646 |
| Fair value at acquisition | $169,746 |

98

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following presents information at the acquisition date for PCI loans acquired in the transaction:

| (Dollars in thousands) | |
|---|---|
| Contractually required principal and interest payments | $2,599 |
| Contractual cash flows not expected to be collected (nonaccretable difference) | 775 |
| Expected cash flows at acquisition | 1,824 |
| Interest component of expected cash flows (accretable yield) | 371 |
| Fair value of loans acquired with deterioration of credit quality | $1,453 |

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

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 year 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.

99

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The loans acquired in the transaction were initially recorded at fair value with no carryover of any allowance for loan and lease losses. There were no loans acquired that were considered to be purchased credit impaired ("PCI") loans. 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 following presents information at the acquisition date for non-PCI loans acquired in the transaction:

| (Dollars in thousands) | |
|---|---|
| Contractually required principal and interest payments | $122,498 |
| Contractual cash flows not expected to be collected | $3,415 |
| Fair value at acquisition | $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 year ended December 31, 2017.

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 and their holding companies.

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 is being 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 was considered contingent consideration which the Company recorded 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 December 31, 2017.

100

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Southern Transportation Insurance Agency

On September 1, 2016, the Company acquired Southern Transportation Insurance Agency, Ltd. in an all-cash transaction for $2,150,000. The purpose of the acquisition was to expand the Company's product offerings for clients in the transportation industry. The Company recognized an intangible asset of $1,580,000 and goodwill of $570,000, which were allocated to the Company's Banking segment. Goodwill resulted from expected enhanced product offerings and will be deducted for tax purposes. The intangible assets recognized in the transaction will be amortized utilizing a straight line method over their eight year estimated useful lives.

ColoEast Bankshares, Inc.

On August 1, 2016, the Company acquired 100% of the outstanding common stock of ColoEast Bankshares, Inc. ("ColoEast") and its community banking subsidiary, Colorado East Bank & Trust, in an all-cash transaction for $70,000,000. The Company also assumed $10,500,000 of ColoEast preferred stock issued in conjunction with the U.S. Government's Treasury Asset Relief Program ("TARP Preferred Stock"). Colorado East Bank & Trust, which was merged into TBK Bank upon closing, offers personal checking, savings, CD, money market, HSA, IRA, NOW and business accounts, as well as commercial and consumer loans from 18 branches and one loan production office located throughout Colorado and far western Kansas. The acquisition expanded the Company's market into Colorado and Kansas and further diversified the Company's loan, customer, and deposit base.

A summary of the 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 | $ 57,671 | $ — | $ 57,671 |
| Securities | 161,693 | — | 161,693 |
| Loans | 460,775 | — | 460,775 |
| FHLB and Federal Reserve Bank stock | 550 | — | 550 |
| Premises and equipment | 23,940 | — | 23,940 |
| Other real estate owned | 3,105 | (143) | 2,962 |
| Intangible assets | 7,238 | — | 7,238 |
| Bank-owned life insurance | 6,400 | — | 6,400 |
| Deferred income taxes | 4,511 | (70) | 4,441 |
| Other assets | 10,022 | — | 10,022 |
| | 735,905 | (213) | 735,692 |

| | | | |
|---|---|---|---|
| Liabilities assumed: | | | |
| Deposits | 652,952 | — | 652,952 |
| Junior subordinated debentures | 7,728 | — | 7,728 |
| Other liabilities | 6,784 | — | 6,784 |
| | 667,464 | — | 667,464 |
| Fair value of net assets acquired | 68,441 | (213 ) | 68,228 |
| Cash paid | 70,000 | — | 70,000 |
| TARP Preferred Stock assumed | 10,500 | — | 10,500 |
| Consideration transferred | 80,500 | — | 80,500 |
| Goodwill | $ 12,059 | $ 213 | $ 12,272 |

The consideration was comprised of a combination of cash and the assumption of ColoEast's TARP Preferred Stock. The Company recognized goodwill of $12,272,000, which included measurement period adjustments related to the final valuation of other real estate owned acquired in the transaction and the finalization of income taxes associated with the transaction. Goodwill was calculated as the excess of both the consideration exchanged and 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 into the Colorado and Kansas markets. The goodwill will not 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.

101

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The TARP Preferred Stock assumed in the acquisition was redeemed by the Company at par on August 31, 2016.

In connection with the ColoEast 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 on acquired loans at the acquisition date:

| (Dollars in thousands) | Loans, Excluding PCI Loans | PCI Loans | Total Loans |
|---|---|---|---|
| Commercial real estate | $ 86,569 | $ 10,907 | $ 97,476 |
| Construction, land development, land | 58,718 | 2,933 | 61,651 |
| 1-4 family residential properties | 36,412 | 91 | 36,503 |
| Farmland | 100,977 | 233 | 101,210 |
| Commercial | 151,605 | 5,129 | 156,734 |
| Factored receivables | 694 | — | 694 |
| Consumer | 6,507 | — | 6,507 |
| | $ 441,482 | $ 19,293 | $ 460,775 |

The following presents information at the acquisition date for non-PCI loans acquired in the transaction:

| (Dollars in thousands) | |
|---|---|
| Contractually required principal and interest payments | $ 530,404 |
| Contractual cash flows not expected to be collected | $ 21,272 |
| Fair value at acquisition | $ 441,482 |

Information about the acquired loan portfolio subject to PCI accounting guidance as of August 1, 2016 is as follows:

| (Dollars in thousands) | |
|---|---|
| Contractually required principal and interest payments | $ 25,124 |
| Contractual cash flows not expected to be collected (nonaccretable difference) | 1,707 |
| Expected cash flows at acquisition | 23,417 |
| Interest component of expected cash flows (accretable yield) | 4,124 |
| Fair value of loans acquired with deterioration of credit quality | $ 19,293 |

The following table presents pro forma information for the years ended December 31, 2016 and 2015 as if the ColoEast acquisition had occurred at the beginning of 2015. The pro forma information includes adjustments for interest income on loans acquired, interest expense on junior subordinated debentures assumed, depreciation expense on property acquired, amortization of intangibles arising from the transaction, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been completed on the assumed date.

| (Dollars in thousands) | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Net interest income | $ 128,322 | $ 117,051 |
| Noninterest income | $ 22,671 | $ 36,539 |
| Net income | $ 21,220 | $ 31,624 |

| | | |
|---|---|---|
| Basic earnings per common share | $1.14 | $1.73 |
| Diluted earnings per common share | $1.13 | $1.70 |

The operations of ColoEast are included in the Company's operating results beginning August 1, 2016.

Expenses related to the acquisition, including professional fees and other transaction costs, totaling $1,618,000 were recorded in noninterest expense in the consolidated statements of income during the year ended December 31, 2016.

102

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Doral Money Acquisition

On March 3, 2015, the Company acquired 100% of the equity of Doral Money, Inc. (“DMI”), a subsidiary of Doral Bank, and the management contracts associated with two active CLOs with approximately $700,000,000 of managed assets. The consideration transferred in the acquisition consisted of cash paid of $135,864,000. The primary purpose of the acquisition was to expand the managed CLO assets at Triumph Capital Advisors, LLC.

A summary of the fair values of assets acquired, liabilities assumed, net consideration transferred, and the resulting bargain purchase gain is as follows:

| (Dollars in thousands) | Initial Values Recorded at Acquisition Date | Measurement Period Adjustments | Adjusted Values |
|---|---|---|---|
| Assets acquired: | | | |
| Cash | $ 8,273 | $ — | $ 8,273 |
| CLO Securities | 98,316 | — | 98,316 |
| Intangible asset - CLO management contracts | 1,918 | — | 1,918 |
| Loans | 36,765 | 900 | 37,665 |
| Prepaid corporate income tax | 3,014 | 1,688 | 4,702 |
| Other assets | 772 | — | 772 |
| | 149,058 | 2,588 | 151,646 |
| Liabilities assumed: | | | |
| Deferred tax liability | 663 | — | 663 |
| Other liabilities | 22 | (20) | 2 |
| | 685 | (20) | 665 |
| Fair value of net assets acquired | 148,373 | 2,608 | 150,981 |
| Net consideration transferred | 135,864 | — | 135,864 |
| Bargain purchase gain | $ (12,509) | $ (2,608) | $ (15,117) |

The Company completed the acquisition via an FDIC bid process for DMI as part of the Doral Bank failure and the resulting nontaxable bargain purchase gain represents the excess of the fair value of the net assets acquired over the fair value of the net consideration transferred.

The Company incurred pre-tax expenses related to the acquisition of approximately $243,000 which are included in professional fees in the consolidated statements of income in the period incurred.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 — SECURITIES

Securities have been classified in the financial statements as available for sale or held to maturity. The amortized cost of securities and their approximate fair values at December 31, 2017 and 2016 are as follows:

| (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 |
| Mutual fund | 5,000 | 6 | — | 5,006 |
| Total available for sale securities | $ 256,381 | $ 664 | $ (1,436 ) | $ 255,609 |

| (Dollars in thousands) December 31, 2017 | Amortized Cost | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
|---|---|---|---|---|
| Held to maturity securities: | | | | |
| CLO securities | $ 8,557 | $ — | $ (1,030 ) | $ 7,527 |

| (Dollars in thousands) December 31, 2016 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Available for sale securities: | | | | |
| U.S. Government agency obligations | $ 180,945 | $ 640 | $ (643 ) | $ 180,942 |
| Mortgage-backed securities, residential | 24,710 | 453 | (173 ) | 24,990 |
| Asset backed securities | 13,031 | 30 | (159 ) | 12,902 |
| State and municipal | 27,339 | 6 | (708 ) | 26,637 |
| Corporate bonds | 27,287 | 106 | (3 ) | 27,390 |
| SBA pooled securities | 156 | 1 | — | 157 |
| Mutual fund | 2,000 | 11 | — | 2,011 |
| Total available for sale securities | $ 275,468 | $ 1,247 | $ (1,686 ) | $ 275,029 |

| (Dollars in thousands) December 31, 2016 | Amortized Cost | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
|---|---|---|---|---|
| Held to maturity securities: | | | | |

| | | | | |
|---|---|---|---|---|
| CLO securities | $ 29,352 | $ 1,527 | $ (58 ) | $ 30,821 |

104

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost and estimated fair value of securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| (Dollars in thousands) | Available for Sale Securities Amortized Cost | Available for Sale Securities Fair Value | Held to Maturity Securities Amortized Cost | Held to Maturity Securities Fair Value |
|---|---|---|---|---|
| Due in one year or less | $30,577 | $30,540 | $— | $— |
| Due from one year to five years | 118,179 | 117,532 | — | — |
| Due from five years to ten years | 32,427 | 32,363 | — | — |
| Due after ten years | 21,243 | 21,100 | 8,557 | 7,527 |
| | 202,426 | 201,535 | 8,557 | 7,527 |
| Mortgage-backed securities, residential | 33,537 | 33,663 | — | — |
| Asset backed securities | 11,883 | 11,845 | — | — |
| SBA pooled securities | 3,535 | 3,560 | — | — |
| Mutual fund | 5,000 | 5,006 | — | — |
| | $256,381 | $255,609 | $8,557 | $7,527 |

Proceeds from sales of securities and the associated gross gains and losses for the years ended December 31, 2017, 2016, and 2015 are as follows:

| (Dollars in thousands) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Proceeds | $32,441 | $34,338 | $17,635 |
| Gross gains | 35 | 17 | 259 |
| Gross losses | — | (73) | — |

Securities with a carrying amount of approximately $85,985,000 and $194,571,000 at December 31, 2017 and 2016, respectively, were pledged to secure public deposits, customer repurchase agreements, and for other purposes required or permitted by law.

Information pertaining to securities with gross unrealized losses at December 31, 2017 and 2016, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are summarized as follows:

| (Dollars in thousands) | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2017 | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | 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 ) |
| Mutual fund | — | — | — | — | — | — |
| Total available for sale securities | $102,770 | $ (498 ) | $58,540 | $ (938 ) | $161,310 | $ (1,436 ) |

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

105

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| (Dollars in thousands) December 31, 2016 | 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 | $95,362 | $ (643) | $— | $ — | $95,362 | $ (643) |
| Mortgage-backed securities, residential | 6,594 | (173) | — | — | 6,594 | (173) |
| Asset backed securities | — | — | 7,946 | (159) | 7,946 | (159) |
| State and municipal | 25,771 | (708) | — | — | 25,771 | (708) |
| Corporate bonds | 372 | (3) | — | — | 372 | (3) |
| SBA pooled securities | — | — | — | — | — | — |
| Mutual fund | — | — | — | — | — | — |
| | $128,099 | $ (1,527) | $7,946 | $ (159) | $136,045 | $ (1,686) |

| (Dollars in thousands) December 31, 2016 | 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 | $3,323 | $ (58) | $— | $ — | $3,323 | $ (58) |

Management evaluates 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 December 31, 2017, the Company had 169 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 any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2017, management believes 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 December 31, 2017 and 2016:

| (Dollars in thousands) | December 31, 2017 Recorded Investment | Unpaid Principal | Difference | December 31, 2016 Recorded Investment | Unpaid Principal | Difference |
|---|---|---|---|---|---|---|
| Commercial real estate | $745,893 | $753,803 | $ (7,910) | $442,237 | $447,926 | $ (5,689) |
| Construction, land development, land | 134,812 | 138,045 | (3,233) | 109,812 | 113,211 | (3,399) |
| 1-4 family residential properties | 125,827 | 127,499 | (1,672) | 104,974 | 106,852 | (1,878) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Farmland | 180,141 | 184,006 | (3,865) | 141,615 | 142,673 | (1,058) |
| Commercial | 920,812 | 924,133 | (3,321) | 778,643 | 783,349 | (4,706) |
| Factored receivables | 374,410 | 376,046 | (1,636) | 238,198 | 239,432 | (1,234) |
| Consumer | 31,131 | 31,144 | (13) | 29,764 | 29,782 | (18) |
| Mortgage warehouse | 297,830 | 297,830 | — | 182,381 | 182,381 | — |
| Total | 2,810,856 | $2,832,506 | $(21,650) | 2,027,624 | $2,045,606 | $(17,982) |
| Allowance for loan and lease losses | (18,748) | | | (15,405) | | |
| | $2,792,108 | | | $2,012,219 | | |

The difference between the recorded investment and unpaid principal balance is principally associated with (1) premiums and discounts associated with acquisition date fair value adjustments on acquired loans (both PCI and non-PCI) totaling $18,706,000 and $15,210,000 at December 31, 2017 and 2016, respectively, and (2) net deferred origination and factoring fees totaling $2,944,000 and $2,772,000 at December 31, 2017 and 2016, respectively.

106

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

A majority (77%) of the Company's factored receivables, representing approximately 10% of the total loan portfolio as of December 31, 2017, are receivables purchased from trucking fleets and owner-operators in the transportation industry. At December 31, 2016, 77% of our factored receivables, representing approximately 9% of our total loan portfolio, were receivables purchased from trucking fleets, owner-operators, and freight brokers in the transportation industry.

At December 31, 2017 and 2016, the Company had $32,459,000 and $23,597,000, 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 $596,230,000 and $497,573,000 at December 31, 2017 and 2016, respectively, were pledged to secure Federal Home Loan Bank advance capacity.

During the year ended December 31, 2017, loans with a carrying amount of $3,914,000 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 $3,834,000 and a loss on sale of loans of $80,000, which was recorded as other noninterest income in the consolidated statements of income. During the year ended December 31, 2016, loans with a carrying amount of $24,384,000 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 $24,538,000 and a gain on sale of loans of $154,000, which was recorded as other noninterest income in the consolidated statements of income. No loan transfers were recorded during the year ended December 31, 2015.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Allowance for Loan and Lease Losses

The activity in the ALLL during the years ended December 31, 2017, 2016 and 2015 is as follows:

| (Dollars in thousands)<br>Year ended December 31, 2017 | Beginning<br>Balance | Provision | Charge-offs | Recoveries | Reclassification<br>To Held For<br>Sale | Ending<br>Balance |
|---|---|---|---|---|---|---|
| Commercial real estate | $ 1,813 | $ 1,822 | $ (259) | $ 59 | $ — | $ 3,435 |
| Construction, land development, land | 465 | 825 | (582) | 175 | — | 883 |
| 1-4 family residential properties | 253 | 24 | (31) | 47 | — | 293 |
| Farmland | 170 | 140 | — | — | — | 310 |
| Commercial | 8,014 | 5,785 | (4,875) | 1,329 | (2,103) | 8,150 |
| Factored receivables | 4,088 | 2,058 | (1,667) | 118 | — | 4,597 |
| Consumer | 420 | 859 | (1,004) | 508 | — | 783 |
| Mortgage warehouse | 182 | 115 | — | — | — | 297 |
| | $ 15,405 | $ 11,628 | $ (8,418) | $ 2,236 | $ (2,103) | $ 18,748 |

| (Dollars in thousands)<br>Year ended December 31, 2016 | Beginning<br>Balance | Provision | Charge-offs | Recoveries | Reclassification<br>To Held For<br>Sale | Ending<br>Balance |
|---|---|---|---|---|---|---|
| Commercial real estate | $ 1,489 | $ 313 | $ (5) | $ 16 | $ — | $ 1,813 |
| Construction, land development, land | 367 | 92 | — | 6 | — | 465 |
| 1-4 family residential properties | 274 | (22) | (84) | 85 | — | 253 |
| Farmland | 134 | 36 | — | — | — | 170 |
| Commercial | 5,276 | 5,390 | (3,643) | 991 | — | 8,014 |
| Factored receivables | 4,509 | 315 | (856) | 120 | — | 4,088 |
| Consumer | 216 | 689 | (564) | 79 | — | 420 |
| Mortgage warehouse | 302 | (120) | — | — | — | 182 |
| | $ 12,567 | $ 6,693 | $ (5,152) | $ 1,297 | $ — | $ 15,405 |

| (Dollars in thousands)<br>Year ended December 31, 2015 | Beginning<br>Balance | Provision | Charge-offs | Recoveries | Reclassification<br>To Held For<br>Sale | Ending<br>Balance |
|---|---|---|---|---|---|---|
| Commercial real estate | $ 533 | $ 1,055 | $ (152) | $ 53 | $ — | $ 1,489 |
| Construction, land development, land | 333 | 34 | — | — | — | 367 |
| 1-4 family residential properties | 215 | 60 | (205) | 204 | — | 274 |
| Farmland | 19 | 115 | — | — | — | 134 |
| Commercial | 4,003 | 1,375 | (145) | 43 | — | 5,276 |
| Factored receivables | 3,462 | 1,508 | (540) | 79 | — | 4,509 |
| Consumer | 140 | 218 | (347) | 205 | — | 216 |
| Mortgage warehouse | 138 | 164 | — | — | — | 302 |
| | $ 8,843 | $ 4,529 | $ (1,389) | $ 584 | $ — | $ 12,567 |

108

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents loans individually and collectively evaluated for impairment, as well as PCI loans, and their respective ALLL allocations:

| (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 |

| (Dollars in thousands) | Loan Evaluation | | | | ALLL Allocations | | | |
|---|---|---|---|---|---|---|---|---|
| December 31, 2016 | Individually | Collectively | PCI | Total loans | Individually | Collectively | PCI | Total ALLL |
| Commercial real estate | $1,456 | $427,918 | $12,863 | $442,237 | $100 | $ 1,358 | $355 | $ 1,813 |
| Construction, land development, land | 362 | 105,493 | 3,957 | 109,812 | 25 | 440 | — | 465 |
| 1-4 family residential properties | 1,095 | 101,551 | 2,328 | 104,974 | 1 | 252 | — | 253 |
| Farmland | 1,333 | 140,045 | 237 | 141,615 | — | 170 | — | 170 |
| Commercial | 33,033 | 738,088 | 7,522 | 778,643 | 2,101 | 5,913 | — | 8,014 |
| Factored receivables | 3,176 | 235,022 | — | 238,198 | 1,546 | 2,542 | — | 4,088 |
| Consumer | 73 | 29,691 | — | 29,764 | — | 420 | — | 420 |
| Mortgage warehouse | — | 182,381 | — | 182,381 | — | 182 | — | 182 |
| | $40,528 | $1,960,189 | $26,907 | $2,027,624 | $3,773 | $ 11,277 | $355 | $ 15,405 |

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 ALLL and are excluded from these tables.

| | Impaired Loans and PCI 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 |

| | Impaired Loans and PCI Impaired Loans | | | | |
|---|---|---|---|---|---|
| | With a Valuation Allowance | | | Impaired Loans Without a Valuation Allowance | |
| (Dollars in thousands) December 31, 2016 | Recorded Investment | Unpaid Principal | Related Allowance | Recorded Investment | Unpaid Principal |
| Commercial real estate | $517 | $517 | $ 100 | $939 | $1,011 |
| Construction, land development, land | 277 | 275 | 25 | 85 | 86 |
| 1-4 family residential properties | 8 | 14 | 1 | 1,087 | 1,215 |
| Farmland | — | — | — | 1,333 | 1,364 |
| Commercial | 15,022 | 15,018 | 2,101 | 18,011 | 18,096 |
| Factored receivables | 3,176 | 3,176 | 1,546 | — | — |
| Consumer | — | — | — | 73 | 73 |
| Mortgage warehouse | — | — | — | — | — |
| PCI | 525 | 525 | 355 | — | — |
| | $19,525 | $19,525 | $ 4,128 | $21,528 | $21,845 |

The following table presents average impaired loans and interest recognized on impaired loans for the years ended December 31, 2017, 2016, and 2015:

| | Years Ended | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2017 | | December 31, 2016 | | December 31, 2015 | |
| (Dollars in thousands) | Average Impaired Loans | Interest Recognized | Average Impaired Loans | Interest Recognized | Average Impaired Loans | Interest Recognized |
| Commercial real estate | $1,234 | $ 33 | $1,090 | $ 46 | $1,329 | $ — |
| Construction, land development, land | 249 | — | 181 | 4 | — | — |
| 1-4 family residential properties | 1,867 | 45 | 857 | 18 | 623 | 42 |
| Farmland | 2,567 | 45 | 667 | 45 | — | — |
| Commercial | 29,825 | 599 | 20,474 | 980 | 7,552 | 187 |
| Factored receivables | 3,951 | — | 3,299 | — | 2,347 | — |
| Consumer | 229 | 9 | 37 | 5 | — | — |
| Mortgage warehouse | — | — | — | — | — | — |
| PCI | 262 | — | 525 | — | 263 | — |
| | $40,184 | $ 731 | $27,130 | $ 1,098 | $12,114 | $ 229 |

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Past Due and Nonaccrual Loans

The following is a summary of contractually past due and nonaccrual loans at December 31, 2017 and 2016:

| (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 |

| (Dollars in thousands) December 31, 2016 | Past Due 30-89 Days Still Accruing | Past Due 90 Days or More Still Accruing | Nonaccrual | Total |
|---|---|---|---|---|
| Commercial real estate | $ 699 | $ 144 | $ 1,163 | $ 2,006 |
| Construction, land development, land | 619 | — | 362 | 981 |
| 1-4 family residential properties | 956 | — | 1,039 | 1,995 |
| Farmland | 3,583 | 141 | 541 | 4,265 |
| Commercial | 11,060 | 1,077 | 26,619 | 38,756 |
| Factored receivables | 11,921 | 2,153 | — | 14,074 |
| Consumer | 667 | 2 | 73 | 742 |
| Mortgage warehouse | — | — | — | — |
| PCI | 2,020 | 104 | 8,233 | 10,357 |
| | $ 31,525 | $ 3,621 | $ 38,030 | $ 73,176 |

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

| (Dollars in thousands) | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Nonaccrual loans[1] | $ 32,149 | $ 38,030 |
| Factored receivables greater than 90 days past due | 1,454 | 2,153 |
| Troubled debt restructurings accruing interest | 5,128 | 5,123 |
| | $ 38,731 | $ 45,306 |

[1]Includes troubled debt restructurings of $14,009,000 and $13,263,000 at December 31, 2017 and 2016, 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. This analysis includes every loan and is performed 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.

111

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 payments would not be collected. The Company evaluates these loans on a projected cash flow basis with this evaluation performed quarterly.

As of December 31, 2017 and 2016 based on the most recent analysis performed, the risk category of loans is as follows:

| (Dollars in thousands)<br>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 |

| (Dollars in thousands)<br>December 31, 2016 | Pass | Substandard | Doubtful | PCI | Total |
|---|---|---|---|---|---|
| Commercial real estate | $422,423 | $ 6,951 | $ — | $12,863 | $442,237 |
| Construction, land development, land | 105,493 | 362 | — | 3,957 | 109,812 |
| 1-4 family residential | 101,339 | 1,307 | — | 2,328 | 104,974 |
| Farmland | 136,474 | 4,904 | — | 237 | 141,615 |
| Commercial | 729,634 | 41,487 | — | 7,522 | 778,643 |
| Factored receivables | 236,084 | 1,029 | 1,085 | — | 238,198 |

| | | | | | |
|---|---|---|---|---|---|
| Consumer | 29,688 | 76 | — | — | 29,764 |
| Mortgage warehouse | 182,381 | — | — | — | 182,381 |
| | $1,943,516 | $ 56,116 | $ 1,085 | $26,907 | $2,027,624 |

Troubled Debt Restructurings

The Company had a recorded investment in troubled debt restructurings of $19,137,000 and $18,386,000 as of December 31, 2017 and 2016, respectively. The Company had allocated specific allowances for these loans of $535,000 and $1,911,000 at December 31, 2017 and 2016, respectively, and had not committed to lend additional amounts.

112

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents loans modified as troubled debt restructurings that occurred during the years ended December 31, 2017, 2016, and 2015:

| (Dollars in thousands) | Recorded Investment | Number of Loans |
|---|---|---|
| December 31, 2017 | | |
| Commercial | $ 8,831 | 8 |
| | | |
| December 31, 2016 | | |
| Commercial real estate | $ 809 | 3 |
| Farmland | 793 | 1 |
| Commercial | 16,612 | 27 |
| | $ 18,214 | 31 |
| December 31, 2015 | | |
| Commercial | $ 1,544 | 4 |

Troubled debt restructurings during the years ended December 31, 2017, 2016, and 2015 were the result of extending amortization periods. The Company did not grant principal reductions or interest rate concessions on any restructured loans.

There were no loans modified as troubled debt restructurings during the year ended December 31, 2017 for which there was a payment default during the year then ended. The Company had one borrower relationship with a recorded investment of $2,011,000 at December 31, 2016, comprised of 14 individual commercial loans that were modified as troubled debt restructurings during the year ended December 31, 2016 for which there were payment defaults during the year then ended. The payment defaults did not result in incremental allowance allocations or charge-offs. There were no loans modified as troubled debt restructurings during the year ended December 31, 2015 for which there was a payment default during the year then ended. Default is determined at 90 or more days past due.

Residential Real Estate Loans In Process of Foreclosure

At December 31, 2017, the Company had $484,000 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 receivable at December 31, 2017 and 2016 are as follows:

| (Dollars in thousands) | December 31, 2017 | December 31, 2016 |
|---|---|---|

| | | |
|---|---|---|
| Contractually required principal and interest: | | |
| Real estate loans | $ 16,360 | $ 25,013 |
| Commercial loans | 3,501 | 9,703 |
| Outstanding contractually required principal and interest | $ 19,861 | $ 34,716 |
| Gross carrying amount included in loans receivable | $ 15,598 | $ 26,907 |

113

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The changes in accretable yield during the years ended December 31, 2017, 2016 and 2015 in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | 2015 |
| Accretable yield, beginning balance | $4,261 | $2,594 | $4,977 |
| Additions | 371 | 4,124 | — |
| Accretion | (3,442) | (3,092) | (4,023) |
| Reclassification from nonaccretable to accretable yield | 2,108 | 646 | 1,805 |
| Disposals | (505) | (11) | (165) |
| Accretable yield, ending balance | $2,793 | $4,261 | $2,594 |

NOTE 5 — OTHER REAL ESTATE OWNED

Other real estate owned activity was as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | 2015 |
| Beginning balance | $6,077 | $5,177 | $8,423 |
| Acquired through business acquisition | 2,282 | 2,962 | — |
| Loans transferred to OREO | 6,585 | 470 | 743 |
| Premises transferred to OREO | 276 | 2,215 | — |
| Net OREO gains (losses) and valuation adjustments | (850) | (1,427) | (108) |
| Sales of OREO | (5,179) | (3,320) | (3,881) |
| Ending balance | $9,191 | $6,077 | $5,177 |

NOTE 6 — PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2017 and 2016 consisted of the following:

| (Dollars in thousands) | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Land | $ 10,534 | $ 6,844 |
| Buildings | 45,841 | 30,646 |
| Leasehold improvements | 4,928 | 4,667 |
| Furniture, fixtures and equipment | 13,015 | 11,112 |
| | 74,318 | 53,269 |
| Accumulated depreciation | (11,457 ) | (7,809 ) |
| | $ 62,861 | $ 45,460 |

Depreciation expense was $4,001,000, $2,817,000 and $2,143,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company leases certain properties and equipment under operating leases. Rent expense was $2,261,000, $2,053,000 and $1,985,000 for the years ended December 31, 2017, 2016 and 2015, respectively. Rent commitments at December 31, 2017, before considering renewal options that generally are present, were as follows:

| (Dollars in thousands) | |
|---|---|
| 2018 | $ 1,866 |
| 2019 | 1,479 |
| 2020 | 1,465 |
| 2021 | 653 |
| 2022 | 203 |
| Thereafter | 303 |
| | $ 5,969 |

114

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

| (Dollars in thousands) | December 31 2017 | December 31, 2016 |
|---|---|---|
| Goodwill | $ 44,126 | $ 28,810 |

| (Dollars in thousands) | December 31, 2017 Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | December 31, 2016 Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|---|---|---|
| Core deposit intangibles | $29,511 | $ (11,335 ) | $ 18,176 | $21,825 | $ (8,423 ) | $ 13,402 |
| Other intangible assets | 1,764 | (288 ) | 1,476 | 6,006 | (1,687 ) | 4,319 |
| | $31,275 | $ (11,623 ) | $ 19,652 | $27,831 | $ (10,110 ) | $ 17,721 |

The changes in goodwill and intangible assets by operating segment during the year are as follows:

| (Dollars in thousands) December 31, 2017 | Banking | Factoring | Asset Management | Total |
|---|---|---|---|---|
| Beginning balance | $36,139 | $ 8,871 | $ 1,521 | $46,531 |
| Acquired goodwill | 16,340 | — | — | 16,340 |
| Acquired intangibles | 9,478 | — | — | 9,478 |
| Amortization of intangibles | (5,016 ) | (3 ) | (182 ) | (5,201 ) |
| Divestiture of intangibles | — | — | (1,339 ) | (1,339 ) |
| Reclass of goodwill to assets held for sale | (1,024 ) | — | — | (1,024 ) |
| Reclass of intangibles to assets held for sale | (1,007 ) | — | — | (1,007 ) |
| Ending balance | $54,910 | $ 8,868 | $ — | $63,778 |

| (Dollars in thousands) December 31, 2016 | Banking | Factoring | Asset Management | Total |
|---|---|---|---|---|
| Beginning balance | $17,482 | $ 8,875 | $ 1,497 | $27,854 |

| | | | | |
|---|---|---|---|---|
| Acquired goodwill | 12,842 | — | — | 12,842 |
| Acquired intangibles | 8,818 | — | 799 | 9,617 |
| Amortization of intangibles | (3,003 ) | (4 ) | (775 ) | (3,782 ) |
| Ending balance | $36,139 | $ 8,871 | $ 1,521 | $46,531 |

| (Dollars in thousands)<br>December 31, 2015 | Banking | Factoring | Asset<br>Management | Total |
|---|---|---|---|---|
| Beginning balance | $20,187 | $ 8,870 | $ — | $29,057 |
| Acquired goodwill | — | 8 | 2,768 | 2,776 |
| Amortization of intangibles | (2,705 ) | (3 ) | (1,271 ) | (3,979 ) |
| Ending balance | $17,482 | $ 8,875 | $ 1,497 | $27,854 |

No goodwill or intangibles have been assigned to the Corporate operating segment.

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. The Company assesses goodwill for impairment at its reporting units that contain goodwill, Banking and Factoring. At the measurement date, these reporting units had positive equity and the Company elected to perform qualitative assessments to determine if it was more likely than not that the fair value of the reporting units exceeded their carrying values, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

After performing an impairment test comparing the carrying value of intangible assets to the fair value of intangible assets, it was determined that the carrying amount of core deposit intangibles related to public funds assigned to the Banking segment exceeded the fair value of these core deposit intangibles, resulting in an impairment charge of $1,276,000 for the year ended December 31, 2017. The impairment charge was recorded as amortization expense in the consolidated statements of income. The impairment of the core deposit intangibles was a result of the decline in public funds deposit balances caused by the Company's intentional decision to reduce its reliance on the use of public funds. There were no impairment charges for the years ended December 31, 2016 and 2015.

Generally, acquired intangible assets are being amortized utilizing an accelerated method over their estimated useful lives, which range from 8 to 10 years. The future amortization schedule for the Company's intangible assets is as follows:

| (Dollars in thousands) | |
|---|---|
| 2018 | $4,296 |
| 2019 | 3,735 |
| 2020 | 3,178 |
| 2021 | 2,617 |
| 2022 | 2,059 |
| Thereafter | 3,767 |
| | $19,652 |

NOTE 8 — VARIABLE INTEREST ENTITIES

Collateralized Loan Obligation Funds - Closed

The Company, through its subsidiary TCA, 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, $6,574,000, and $5,646,000 for the years ended December 31, 2017, 2016, and 2015. 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 acts 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 $8,557,000 and $3,380,000 at December 31, 2017 and 2016, 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 are variable interest entities and that the Company holds variable interests in 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 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.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2017, the Company did not hold any investments in the subordinated debt of CLO funds during their warehouse phase. At December 31, 2016, the Company held an investment of $21,217,000 in the subordinated debt of a CLO fund during its warehouse phase, which was classified as other assets within the Company's consolidated balance sheets. Income from the Company's investments in CLO warehouse entities totaled $2,226,000, $3,184,000, and $1,151,000 during the years ended December 31, 2017, 2016, and 2015, respectively, and 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 did 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 entities in the Company's financial statements.

NOTE 9 - Deposits

Deposits at December 31, 2017 and December 31, 2016 are summarized as follows:

| (Dollars in thousands) | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Noninterest bearing demand | $564,225 | $363,351 |
| Interest bearing demand | 403,244 | 340,362 |
| Individual retirement accounts | 108,505 | 103,022 |
| Money market | 283,969 | 213,253 |
| Savings | 235,296 | 171,354 |
| Certificates of deposit | 837,384 | 756,351 |
| Brokered deposits | 188,725 | 68,092 |
| Total deposits | $2,621,348 | $2,015,785 |

At December 31, 2017, scheduled maturities of time deposits, including certificates of deposits, individual retirement accounts and brokered deposits, are as follows:

| (Dollars in thousands) | December 31, 2017 |
|---|---|
| Within one year | $851,311 |

| | |
|---|---|
| After one but within two years | 185,402 |
| After two but within three years | 45,789 |
| After three but within four years | 32,054 |
| After four but within five years | 20,058 |
| Total | $1,134,614 |

Time deposits, including individual retirement accounts, certificates of deposit, and brokered deposits, with individual balances of $250,000 and greater totaled $158,197,000 and $149,258,000 at December 31, 2017 and 2016, respectively.

NOTE 10 — BORROWINGS AND BORROWING CAPACITY

Customer Repurchase Agreements

Customer repurchase agreements are overnight customer sweep arrangements. Information concerning customer repurchase agreements is summarized as follows:

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Customer repurchase agreements are secured by pledged securities with carrying amounts as follows:

| (Dollars in thousands) | December 31, 2017 | December 31, 2016 |
|---|---|---|
| U.S. Government agency obligations | $ 13,460 | $ 10,488 |
| Mortgage-backed securities, residential | — | 2,998 |
| | $ 13,460 | $ 13,486 |

FHLB Advances

FHLB advances are collateralized by assets, including a blanket pledge of certain loans. FHLB advances and weighted average interest rates at end of period by contractual maturity are summarized as follows:

| | Fixed Rate | | Variable Rate | |
|---|---|---|---|---|
| (Dollars in thousands) | Balance Outstanding | Weighted Average Interest Rate | Balance Outstanding | Weighted Average Interest Rate |
| 2018 | $290,000 | 1.40 % | $45,000 | 1.33 % |
| 2027 | — | — | 30,000 | 1.39 % |
| | $290,000 | 1.40 % | $75,000 | 1.35 % |

Information concerning FHLB advances is summarized as follows:

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

The Company's unused borrowing capacity with the FHLB is as follows:

| (Dollars in thousands) | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Borrowing capacity | $ 596,230 | $ 497,147 |
| Borrowings outstanding | 365,000 | 230,000 |
| Unused borrowing capacity | $ 231,230 | $ 267,147 |

Federal Funds Purchased

The Company had no federal funds purchased at December 31, 2017 or 2016. However, as of December 31, 2017 the Company had unsecured federal funds lines of credit with seven unaffiliated banks totaling $137,500,000.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Subordinated Notes

On September 30, 2016, the Company issued $50,000,000 of Fixed-to-Floating Rate Subordinated Notes due 2026 (the “Notes”). The Notes initially bear interest at 6.50% per annum, payable semi-annually in arrears, to, but excluding, September 30, 2021, and, thereafter and to, but excluding, the maturity date or earlier redemption, interest shall be payable quarterly in arrears, at an annual floating rate equal to three-month LIBOR as determined for the applicable quarterly period, plus 5.345%. The Company may, at its option, beginning on September 30, 2021 and on any scheduled interest payment date thereafter, redeem the Notes, in whole or in part, at a redemption price equal to the outstanding principal amount of the Notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption. The Notes are subordinated in right of payment to the Company’s existing and future senior indebtedness and are structurally subordinated to the Company’s subsidiaries’ existing and future indebtedness and other obligations.

The Notes are included on the consolidated balance sheets as liabilities at their carrying values of $48,828,000 and $48,734,000 at December 31, 2017 and 2016, respectively; however, for regulatory purposes, the carrying value of these obligations were eligible for inclusion in Tier 2 regulatory capital.

Issuance costs related to the Notes totaled $1,324,000, including an underwriting discount of 1.5%, or $750,000, and have been netted against the subordinated notes liability on the balance sheet. The underwriting discount and other debt issuance costs are being amortized using the effective interest method through maturity and recognized as a component of interest expense.

Junior Subordinated Debentures

The following provides a summary of the Company’s junior subordinated debentures:

| (Dollars in thousands) | Face Value | Carrying Value | Maturity Date | Variable Interest Rate | Interest Rate At December 31, 2017 |
|---|---|---|---|---|---|
| National Bancshares Capital Trust II | $ 15,464 | $ 12,861 | September 2033 | LIBOR + 3.00% | 4.59% |
| National Bancshares Capital Trust III | 17,526 | 12,389 | July 2036 | LIBOR + 1.64% | 3.00% |
| ColoEast Capital Trust I | 5,155 | 3,417 | September 2035 | LIBOR + 1.60% | 3.29% |
| ColoEast Capital Trust II | 6,700 | 4,485 | March 2037 | LIBOR + 1.79% | 3.48% |
| Valley Bancorp Statutory Trust I | 3,093 | 2,844 | September 2032 | LIBOR + 3.40% | 5.07% |
| Valley Bancorp Statutory Trust II | 3,093 | 2,627 | July 2034 | LIBOR + 2.75% | 4.35% |
| | $ 51,031 | $ 38,623 | | | |

These debentures are unsecured obligations due to trusts that are unconsolidated subsidiaries. The debentures were issued in conjunction with the trusts’ issuances of obligated capital securities. The trusts used the proceeds from the issuances of their capital securities to buy floating rate junior subordinated deferrable interest debentures that bear the same interest rate and terms as the capital securities. These debentures are the trusts’ only assets and the interest payments from the debentures finance the distributions paid on the capital securities. These debentures rank junior and are subordinate in the right of payment to all other debt of the Company.

As part of the purchase accounting adjustments made with the National Bancshares, Inc. acquisition on October 15, 2013, the ColoEast acquisition on August 1, 2016, and the Valley acquisition on December 9, 2017, the Company adjusted the carrying value of the junior subordinated debentures to fair value as of the respective acquisition dates. The discount on the debentures will continue to be amortized through maturity and recognized as a component of interest expense.

The debentures may be called by the Company at par plus any accrued but unpaid interest. Interest on the debentures is calculated quarterly. The distribution rate payable on the capital securities is cumulative and payable quarterly in arrears. The Company has the right to defer payments on interest on the debentures at any time by extending the interest payment period for a period not exceeding 20 consecutive quarters with respect to each deferral period, provided that no extension period may extend beyond the redemption or maturity date of the debentures.

The debentures are included on the consolidated balance sheet as liabilities; however, for regulatory purposes, the carrying value of these obligations are eligible for inclusion in Tier I regulatory capital, subject to certain limitations. All of the carrying value of $38,623,000 and $32,740,000 was allowed in the calculation of Tier I regulatory capital as of December 31, 2017 and 2016, respectively.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 11 — EMPLOYEE BENEFIT PLANS

### 401(k) Plan

The Company sponsors a 401(k) benefit plan that allows employee contributions up to the maximum tax-deferred limitations established by the Internal Revenue Code, which are matched by the Company equal to 100% of the first 4% of the compensation contributed. Expense related to the 401(k) matching contributions for the years ended December 31, 2017, 2016 and 2015 was $1,468,000, $1,179,000 and $1,100,000, respectively.

## NOTE 12 — INCOME TAXES

Income tax expense for the years ended December 31, 2017, 2016, and 2015 consisted of the following:

| | Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | 2015 |
| Income tax expense: | | | |
| Current | $14,714 | $10,922 | $8,701 |
| Deferred | 10,174 | 1,941 | 666 |
| Change in valuation allowance for deferred tax asset | (10) | (54) | (946) |
| Income tax expense | $24,878 | $12,809 | $8,421 |

Effective tax rates differ from federal statutory rates applied to income before income taxes due to the following:

| | Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | 2015 |
| Tax provision computed at federal statutory rate | $21,384 | $11,728 | $13,144 |
| Effect of: | | | |
| State taxes, net | 1,112 | 852 | 1,444 |
| Tax reform impact[1] | 2,984 | — | — |
| Change in effective tax rate | — | — | (142) |
| Bargain purchase gain | — | — | (5,291) |
| Transaction costs | — | 325 | — |
| Bank-owned life insurance | (246) | (201) | (158) |
| Tax exempt interest | (545) | (129) | (119) |
| Change in valuation allowance for deferred tax asset | (10) | (54) | (946) |
| Other | 199 | 288 | 489 |

| | | | |
|---|---|---|---|
| Income tax expense | $24,878 | $12,809 | $8,421 |

(1) 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. As a result of the changes under the Tax Act, the Company recorded incremental income tax expense of $2,984,000 during the year ended December 31, 2017, which consisted primarily of the remeasurement of deferred tax assets and liabilities at the new federal statutory rate of 21%. Prior to the enactment of the Tax Act, deferred tax assets and liabilities were measured at the previous federal statutory rate of 35%. 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.

Deferred income taxes reflect the net tax effects of temporary differences between the recorded amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company’s deferred tax assets and liabilities as of December 31, 2017 and 2016 are as follows:

| (Dollars in thousands) | 2017 | 2016 |
|---|---|---|
| Deferred tax assets | | |
| Federal net operating loss carryforwards | $7,180 | $13,669 |
| State net operating loss carryforwards | 1,338 | 1,493 |
| Acquired loan basis | 1,159 | 4,888 |
| Other real estate owned | 394 | 2,788 |
| AMT credit carryforward | 2,855 | 2,855 |
| Allowance for loan losses | 4,825 | 4,853 |
| Unrealized loss on securities available for sale | 176 | 163 |
| Other | 1,218 | 2,562 |
| Total deferred tax assets | 19,145 | 33,271 |
| Deferred tax liabilities | | |
| Goodwill and intangible assets | 2,233 | 4,558 |
| Fair value adjustment on junior subordinated debentures | 2,792 | 4,735 |
| Premises and equipment | 2,273 | 3,310 |
| Installment gain on sale of subsidiary | 2,230 | — |
| Other | 396 | 1,606 |
| Total deferred tax liabilities | 9,924 | 14,209 |
| Net deferred tax asset before valuation allowance | 9,221 | 19,062 |
| Valuation allowance | (262 ) | (237 ) |
| Net deferred tax asset | $8,959 | $18,825 |

The Company's federal and state net operating loss carryforwards as of December 31, 2017 were $34,190,000 and $29,178,000, respectively, which will expire at various dates from 2021 through 2035. The Company has a Federal Alternative Minimum Tax Credit carryforward of $2,855,000 as of December 31, 2017 with no expiration. The Company has a valuation allowance on certain net operating loss carryforwards that are not expected to be realized before expiration.

The Company's federal and state net operating loss carryforwards as of December 31, 2016 were $39,055,000 and $34,500,000, respectively. The Company had a Federal Alternative Minimum Tax Credit carryforward of $2,855,000 as of December 31, 2016.

An Internal Revenue Code Section 382 (“Section 382”) ownership change was triggered as part of previous acquisitions. A significant portion of the deferred tax asset relating to the Company's net operating loss and Alternative Minimum

Tax credit carryforwards are subject to the annual limitation rules under Section 382 . The utilization of tax carryforward attributes acquired from the EJ Financial Corp. (2010) acquisition is subject to an annual limitation of $341,000. The utilization of tax carryforward attributes acquired from the National Bancshares, Inc.(2013) acquisition is subject to an annual limitation of $2,040,000. Any remaining tax attribute carryforwards generated prior to the Section 382 ownership change in 2013 are subject to an annual limitation of $3,696,000.

The utilization of deferred tax assets related to the net operating loss and tax credit carryforwards acquired from the 2016 ColoEast stock acquisition are subject to an annual limitation of $1,906,000 under Section 382 rules.

At December 31, 2017 and 2016, the Company had no amounts recorded for uncertain tax positions and does not expect any material changes in uncertain tax benefits during the next 12 months. The Company recognizes interest and penalties related to income tax matters in income tax expense.

The Company is subject to U.S. federal income tax as well as income tax in various states. The Company is generally not subject to examination by taxing authorities for years prior to 2014.

NOTE 13 - Legal Contingencies

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company’s consolidated financial statements. The Company does not anticipate any material losses as a result of commitments and contingent liabilities.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - 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 instruments.

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

| | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| (Dollars in thousands) | Fixed Rate | Variable Rate | Fixed Rate | Variable Rate |
| Commitments to make loans | $— | $— | $7,345 | $7,580 |
| Unused lines of credit | $133,634 | $242,236 | $109,611 | $145,475 |
| Standby letters of credit | $1,998 | $8,169 | $2,547 | $4,706 |
| Mortgage warehouse commitments | $9,411 | $230,221 | $14,387 | $219,560 |

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 December 31, 2017 and 2016, the allowance for loan and lease losses on off-balance sheet lending-related commitments totaled $501,000 and $315,000, 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 $2,397,000 and $1,882,000 at December 31, 2017 and 2016, respectively.

NOTE 15 - 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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 December 31, 2017 and 2016.

| (Dollars in thousands) December 31, 2017 | Fair Value Measurements Using 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 |
| Mutual fund | 5,006 | — | — | 5,006 |
| | $5,006 | $250,603 | $ — | $255,609 |

| (Dollars in thousands) December 31, 2016 | Fair Value Measurements Using Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| Securities available for sale | | | | |
| U.S. Government agency obligations | $— | $180,942 | $ — | $180,942 |
| Mortgage-backed securities, residential | — | 24,990 | — | 24,990 |
| Asset backed securities | — | 12,902 | — | 12,902 |
| State and municipal | — | 26,637 | — | 26,637 |
| Corporate bonds | — | 27,390 | — | 27,390 |
| SBA pooled securities | — | 157 | — | 157 |
| Mutual fund | 2,011 | — | — | 2,011 |
| | $2,011 | $273,018 | $ — | $275,029 |

The Company used the following methods and assumptions to estimate fair value of financial instruments that are measured at fair value on a recurring basis:

Securities available for sale – The fair values of debt securities available for sale are determined by third party matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair values of equity securities available for sale are determined based on quoted market prices in active markets and are classified in Level 1 of the valuation hierarchy.

There were no transfers between levels for the years ended December 31, 2017 and 2016.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 December 31, 2017 and 2016.

| (Dollars in thousands) December 31, 2017 | Fair Value Measurements Using Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| 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 |

| (Dollars in thousands) December 31, 2016 | Fair Value Measurements Using Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|
| Impaired loans | | | | |
| Commercial real estate | $— | $ — | $417 | $417 |
| Construction, land development, land | — | — | 252 | 252 |
| 1-4 family residential properties | — | — | 7 | 7 |
| Commercial | — | — | 12,921 | 12,921 |
| Factored receivables | — | — | 1,630 | 1,630 |
| PCI | — | — | 170 | 170 |
| Other real estate owned [1]: | | | | |
| Commercial | — | — | 698 | 698 |
| 1-4 family residential properties | — | — | 485 | 485 |
| Construction, land development, land | — | — | 467 | 467 |
| | $— | $ — | $17,047 | $17,047 |

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

As of December 31, 2017 and 2016, the only Level 3 assets with material unobservable inputs are associated with impaired loans and 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 December 31, 2017 and 2016 were as follows:

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Carrying | Fair Value Measurements Using | | | Total |
| (Dollars in thousands) | 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 |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Carrying | Fair Value Measurements Using | | | Total |
| (Dollars in thousands) | Amount | Level 1 | Level 2 | Level 3 | Fair Value |
| Financial assets: | | | | | |
| Cash and cash equivalents | $114,514 | $114,514 | $— | $— | $114,514 |
| Securities - held to maturity | 29,352 | — | 27,498 | 3,323 | 30,821 |
| Loans not previously presented, net | 1,996,822 | — | — | 2,002,487 | 2,002,487 |

| | | | | | |
|---|---|---|---|---|---|
| FHLB stock | 8,430 | N/A | N/A | N/A | N/A |
| Accrued interest receivable | 12,663 | 12,663 | — | — | 12,663 |
| | | | | | |
| Financial liabilities: | | | | | |
| Deposits | 2,015,785 | — | 2,014,922 | — | 2,014,922 |
| Customer repurchase agreements | 10,490 | — | 10,490 | — | 10,490 |
| Federal Home Loan Bank advances | 230,000 | — | 230,000 | — | 230,000 |
| Subordinated notes | 48,734 | — | 50,920 | — | 50,920 |
| Junior subordinated debentures | 32,740 | — | 32,905 | — | 32,905 |
| Accrued interest payable | 2,682 | 2,682 | — | — | 2,682 |

For those financial instruments not previously described, the following methods and assumptions were used by the Company in estimating the fair values of financial instruments as disclosed herein:

Cash and Cash Equivalents

For financial instruments with a shorter term or with no stated maturity, prevailing market rates, and limited credit risk, the carrying amounts approximate fair value and are considered a Level 1 classification.

Securities held to maturity

The fair values of the Company’s investments in the subordinated notes of Trinitas IV, Trinitas V, and Trinitas VI classified as securities held to maturity are determined based on the securities’ discounted projected future cash flows (net present value), resulting in a Level 3 classification.

The fair values of the Company’s other securities held to maturity at December 31, 2016 were determined by third party matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities, resulting in a Level 2 classification. There were no such securities held at December 31, 2017.

Loans

Loans include loans held for investment and loans included in assets held for sale. Loans exclude impaired loans previously described above. For variable rate loans that reprice frequently and have no significant changes in credit risk, excluding previously presented impaired loans measured at fair value on a non-recurring basis, fair values are based on carrying values. Fair values for fixed rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loans are considered a Level 3 classification.

FHLB stock

FHLB stock is restricted to member banks and there are restrictions placed on its transferability. As a result, the fair value of FHLB stock was not practicable to determine.

Deposits

The fair values disclosed for demand deposits and non-maturity transaction accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts) and are considered a Level 2 classification. Fair values for fixed rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Customer repurchase agreements

The carrying amount of customer repurchase agreements approximates fair value due to their short term nature. The customer repurchase agreement fair value is considered a Level 2 classification.

Federal Home Loan Bank advances

The Company's FHLB advances have variable rates or a maturity of less than three months and therefore fair value materially approximates carrying value and is considered a Level 2 classification.

Subordinated notes

The subordinated notes were valued based on quoted market prices, but due to limited trading activity for the subordinated notes in these markets, the subordinated notes are considered a Level 2 classification.

Junior subordinated debentures

The junior subordinated debentures were valued by discounting future cash flows using current interest rates for similar financial instruments, resulting in a Level 2 classification.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accrued Interest Receivable and Accrued Interest Payable

The carrying amounts of accrued interest receivable and accrued interest payable approximate their fair values given the short term nature of the receivables and are considered a Level 1 classification.

NOTE 16 — RELATED-PARTY TRANSACTIONS

Loans to related parties and their affiliates were as follows:

| | Years Ended December 31, | |
|---|---|---|
| (Dollars in thousands) | 2017 | 2016 |
| Beginning balance | $29,285 | $35,765 |
| New loans and advances | 14,440 | 88,711 |
| Effect of changes in composition of related parties | (15,004) | (6,018) |
| Repayments | (2,109) | (89,173) |
| Ending balance | $26,612 | $29,285 |

Advances and repayments of related party loans for the year ended December 31, 2016 included activity on revolving credit and asset-based lending arrangements.

Related party deposits at December 31, 2017 and 2016 were $9,360,000 and $14,634,000, respectively.

Trinitas Capital Management, LLC

Trinitas Capital Management, LLC (“Trinitas”) is an independent CLO asset manager formed in 2015. Prior to the sale of TCA on March 31, 2017, certain of the Company’s officers and other personnel served as officers or managers of Trinitas and certain members of the Company’s board of directors also hold minority membership interests in Trinitas. The Company does not hold any membership interests in Trinitas.

As described in Note 8 – Variable Interest Entities, the Company, through its subsidiary TCA, provided certain middle and back office staffing and services to Trinitas as the asset manager of various CLO funds issued by Trinitas. For the years ended December 31, 2017 and 2016, TCA earned fees from Trinitas totaling $521,000 and $907,000, respectively. No asset management fees were earned by TCA from Trinitas for the year ended December 31, 2015. As a result of the TCA sale, as of March 31, 2017 the Company no longer acts as a staffing and services provider for Trinitas. The Company holds investments in the subordinated notes of Trinitas IV, Trinitas V, and Trinitas VI, CLOs managed by Trinitas, with a carrying amount of $8,557,000 and $3,380,000 at December 31, 2017 and 2016, respectively.

Triumph Consolidated Cos., LLC

As described in Note 18 – Equity and Noncontrolling Interests, Triumph Consolidated Cos., LLC held a warrant to purchase shares of the Company’s common stock which was exercised during the year ended December 31, 2017. Prior to its dissolution during the year ended December 31, 2017, certain of the Company’s directors and executive officers were directors, officers, investors, or other interest holders in Triumph Consolidated Cos., LLC.

NOTE 17 — 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.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 December 31, 2017, the Company and TBK Bank meet all capital adequacy requirements to which they are subject.

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

The actual capital amounts and ratios for the Company and TBK Bank as of December 31, 2017 and 2016 are presented in the following table:

| (Dollars in thousands) | Actual Amount | Ratio | Minimum for Capital Adequacy Purposes Amount | Ratio | To Be Well Capitalized Under Prompt Corrective Action Provisions Amount | Ratio |
|---|---|---|---|---|---|---|
| As of December 31, 2017 | | | | | | |
| Total capital (to risk weighted assets) | | | | | | |
| Triumph Bancorp, Inc. | $436,036 | 13.2% | $264,026 | 8.0% | N/A | N/A |
| TBK Bank, SSB | $361,068 | 11.4% | $254,139 | 8.0% | $317,674 | 10.0% |
| Tier 1 capital (to risk weighted assets) | | | | | | |
| Triumph Bancorp, Inc. | $367,958 | 11.1% | $198,019 | 6.0% | N/A | N/A |
| TBK Bank, SSB | $341,910 | 10.8% | $190,603 | 6.0% | $254,137 | 8.0% |
| Common equity Tier 1 capital (to risk weighted assets) | | | | | | |
| Triumph Bancorp, Inc. | $320,265 | 9.7% | $148,514 | 4.5% | N/A | N/A |
| TBK Bank, SSB | $341,910 | 10.8% | $142,952 | 4.5% | $206,486 | 6.5% |
| Tier 1 capital (to average assets) | | | | | | |
| Triumph Bancorp, Inc. | $367,958 | 11.8% | $124,754 | 4.0% | N/A | N/A |
| TBK Bank, SSB | $341,910 | 11.1% | $123,088 | 4.0% | $153,860 | 5.0% |
| As of December 31, 2016 | | | | | | |
| Total capital (to risk weighted assets) | | | | | | |
| Triumph Bancorp, Inc. | $342,059 | 14.6% | $187,449 | 8.0% | N/A | N/A |
| TBK Bank, SSB | $293,313 | 12.9% | $181,640 | 8.0% | $227,050 | 10.0% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Tier 1 capital (to risk weighted assets) | | | | | | |
| Triumph Bancorp, Inc. | $277,605 | 11.8% | $140,587 | 6.0% | N/A | N/A |
| TBK Bank, SSB | $277,593 | 12.2% | $136,230 | 6.0% | $181,640 | 8.0% |
| | | | | | | |
| Common equity Tier 1 capital (to risk weighted assets) | | | | | | |
| Triumph Bancorp, Inc. | $238,439 | 10.2% | $105,440 | 4.5% | N/A | N/A |
| TBK Bank, SSB | $277,593 | 12.2% | $102,173 | 4.5% | $147,583 | 6.5% |
| | | | | | | |
| Tier 1 capital (to average assets) | | | | | | |
| Triumph Bancorp, Inc. | $277,605 | 10.9% | $102,303 | 4.0% | N/A | N/A |
| TBK Bank, SSB | $277,593 | 11.0% | $100,802 | 4.0% | $126,002 | 5.0% |

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 18 - EQUITY AND NONCONTROLLING INTERESTS

The following summarizes the Company's capital structure:

Common Stock

| | Common Stock December 31, | |
|---|---|---|
| (Dollars in thousands, except per share amounts) | 2017 | 2016 |
| Shares authorized | 50,000,000 | 50,000,000 |
| Shares issued | 20,912,396 | 18,154,365 |
| Treasury shares | 91,951 | 76,118 |
| Shares outstanding | 20,820,445 | 18,078,247 |
| Par value per share | $0.01 | $0.01 |

Preferred Stock

| | Preferred Stock Series A December 31, | | Preferred Stock Series B December 31, | |
|---|---|---|---|---|
| (Dollars in thousands, except per share amounts) | 2017 | 2016 | 2017 | 2016 |
| Shares authorized | 50,000 | 50,000 | 115,000 | 115,000 |
| Shares issued | 45,500 | 45,500 | 51,076 | 51,956 |
| Shares outstanding | 45,500 | 45,500 | 51,076 | 51,956 |

| | | | | |
|---|---|---|---|---|
| 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 | $5,196 |

Common Stock Offering

On August 1, 2017, the Company completed an underwritten common stock offering issuing 2,530,000 shares of the Company's common stock, including 330,000 shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares, at $27.50 per share for total gross proceeds of $69,575,000. Net proceeds after underwriting discounts and offering expenses were $65,509,000.

Warrants

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

Preferred Stock Series A

The following summarizes the terms of the Company's Series A Non-Cumulative Non-Voting Preferred Stock (the "Preferred Stock Series A") as of December 31, 2017 and 2016.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Series A holders are entitled to quarterly cash dividends accruing at the rate per annum of Prime + 2%, with an 8.00% floor, applied to the liquidation preference value of the stock. Any dividends not paid shall not accumulate but will be waived and not payable by the Company. Payments of dividends are subject to declaration by the board of the Company. Subject to regulatory approval, Series A holders have the right to receive a special, one-time dividend with respect to their respective shares within 30 days after the occurrence of any of the following events: (i) the sale of all of the limited liability company interests of TBK Bank (as successor in interest to TCF) in TBC, (ii) a merger of TBC resulting in TBK Bank (as successor in interest to TCF) no longer owning any limited liability company interests in TBC or (iii) the sale of all or substantially all of the assets of TBC, subject to certain organizational restructuring exceptions. The Company paid all dividends when due on these shares during the year ended December 31, 2017. The Preferred Stock Series A is not redeemable by the holder, ranks pari passu with the Company’s Preferred Stock Series B (as described below), and is senior to the Company’s common stock.

The Preferred Stock Series A are redeemable at liquidation value by the Company subject to regulatory approval at any time on or after October 15, 2018.

The Preferred Stock Series A shares are convertible to common stock at the option of the holder any time at a preferred to common stock conversion ratio of 6.94008. No Preferred Stock Series A shares were converted to common stock during the years ended December 31, 2017, 2016, and 2015.

Preferred Stock Series B

The following summarizes the terms of the Company’s Series B Non-Cumulative Non-Voting Preferred Stock (the “Preferred Stock Series B”) as of December 31, 2017 and 2016.

Series B holders are entitled to quarterly cash dividends accruing at the rate per annum of 8.00% applied to the liquidation value of the stock. Any dividends not paid shall not accumulate but will be waived and not payable by the Company. Payments of dividends are subject to declaration by the board of the Company. The Company paid all dividends when due on these shares during the year ended December 31, 2017. The Preferred Stock Series B is not redeemable by the holder, ranks pari passu with the Company’s Preferred Stock Series A, and is senior to the Company’s common stock.

The Preferred Stock Series B are redeemable at liquidation value by the Company subject to regulatory approval at any time on or after October 15, 2018.

The Preferred Stock Series B shares are convertible to common stock at the option of the holder any time at a preferred to common stock conversion ratio of 6.94008. During the year ended December 31, 2017, 880 shares of Preferred Stock Series B with a liquidation value of $88,000 were converted to 6,106 shares of common stock. No Preferred Stock Series B shares were converted to common stock during the years ended December 31, 2016 and 2015.

NOTE 19 — STOCK BASED COMPENSATION

Stock based compensation expense that has been charged against income was $1,801,000, $2,367,000 and $3,077,000 for the years ended December 31, 2017, 2016 and 2015, 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.

130

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Stock Awards

A summary of changes in the Company's nonvested Restricted Stock Awards ("RSAs") under the Omnibus Incentive Plan for the year ended December 31, 2017 were as follows:

| Nonvested RSAs | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Nonvested at January 1, 2017 | 126,644 | $ 14.92 |
| Granted | 45,732 | 25.80 |
| Vested | (67,964 ) | 16.50 |
| Forfeited | (1,636 ) | 16.61 |
| Nonvested at December 31, 2017 | 102,776 | $ 18.68 |

RSAs granted to employees under the Omnibus Incentive Plan generally vest over three to four years, but vesting periods may vary. Nonvested restricted stock awards are included in the Company's common stock outstanding.

Compensation expense for RSAs granted under the Omnibus Incentive Plan will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date. As of December 31, 2017, there was $798,000 of total unrecognized compensation cost related to nonvested RSAs granted under the Omnibus Incentive Plan. The cost is expected to be recognized over a remaining weighted average period of 2.84 years.

Stock Options

A summary of changes in the Company's stock options under the Omnibus Incentive Plan for the year ended December 31, 2017 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, 2017 | 163,661 | $ 15.87 | | |
| Granted | 58,729 | 25.80 | | |
| Exercised | (34,977 ) | 15.87 | | |
| Forfeited or expired | (2,085 ) | 19.69 | | |
| Outstanding at December 31, 2017 | 185,328 | $ 18.97 | $ 8.57 | $ 2,321 |
| | | | | |
| | 185,328 | $ 18.97 | 8.57 | $ 2,321 |

| | | | | |
|---|---|---|---|---|
| Fully vested shares and shares expected to vest at December 31, 2017 | | | | |
| Shares exercisable at December 31, 2017 | 31,742 | $ 15.87 | $ 8.25 | $ 496 |

| (Dollars in thousands, except per share amounts) | Year Ended December 31, 2017 | 2016 |
|---|---|---|
| Aggregate intrinsic value of options exercised | $251 | $— |
| Cash received from option exercises | $283 | $— |
| Tax benefit realized from option exercises | $88 | $— |
| Weighted average fair value of options granted | $8.71 | $5.85 |

131

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock options awarded to employees under the Omnibus Incentive Plan are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant, vest over four years, and have ten year contractual terms. The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. Expected volatilities of options granted during the year ended December 31, 2017 were determined based on a blend of the Company's historical volatility and historical volatilities of a peer group of companies with a similar size, industry, stage of life cycle, and capital structure. Expected volatilities of options granted during the year ended December 31, 2016 were determined based on historical volatilities of a peer group of companies with a similar size, industry, stage of life cycle, and capital structure. The expected term of the options granted was determined based on the SEC simplified method, which calculates the expected term as the mid-point between the weighted average time to vesting and the contractual term. The risk-free interest rate for the expected term of the options was derived from the Treasury constant maturity yield curve on the valuation date.

The fair value of the stock options granted was determined using the following weighted average assumptions:

| | 2017 | 2016 |
|---|---|---|
| Risk-free interest rate | 2.11 % | 1.49 % |
| Expected term | 6.25 Years | 6.25 Years |
| Expected stock price volatility | 29.70% | 34.96% |
| Dividend yield | — | — |

As of December 31, 2017, there was $512,000 of unrecognized compensation cost related to nonvested stock options granted under the Omnibus Incentive Plan. The cost is expected to be recognized over a remaining weighted average period of 2.85 years.

NOTE 20 — PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

The following tables present parent company only condensed financial information.

Condensed Parent Company Only Balance Sheets:

| (Dollars in thousands) | December 31, 2017 | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $47,826 | $10,222 |
| Securities - held to maturity | 8,557 | 3,380 |
| Loans | 11,046 | 984 |
| Investment in bank subsidiary | 407,050 | 320,629 |
| Investment in non-bank subsidiaries | 12,650 | 15,634 |

| | | |
|---|---|---|
| Other assets | 4,880 | 29,149 |
| Total assets | $492,009 | $379,998 |
| LIABILITIES AND EQUITY | | |
| Subordinated notes | $48,828 | $48,734 |
| Junior subordinated debentures | 38,623 | 32,740 |
| Intercompany payables | 10,169 | 8,500 |
| Accrued expenses and other liabilities | 2,691 | 1,351 |
| Total liabilities | 100,311 | 91,325 |
| Stockholders' equity(1) | 391,698 | 288,673 |
| Total liabilities and equity | $492,009 | $379,998 |

132

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Parent Company Only Statements of Income:

| | Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | 2015 |
| Interest income | $1,415 | $793 | $718 |
| Interest expense | (5,300 ) | (2,262 ) | (291 ) |
| Provision for loan losses | (91 ) | — | — |
| Gain on sale of subsidiary | 20,860 | — | — |
| Other income | 1,572 | 2,991 | 1,040 |
| Loss on intercompany sale of loans[1] | — | (794 ) | — |
| Salaries and employee benefits | (5,686 ) | (581 ) | (2,781 ) |
| Other expense | (3,138 ) | (1,940 ) | (3,099 ) |
| Income (loss) before income tax and undistributed subsidiary income | 9,632 | (1,793 ) | (4,413 ) |
| Income tax (expense) benefit | (3,087 ) | (487 ) | 700 |
| Equity in undistributed subsidiary income | 30,347 | 22,308 | 32,846 |
| Net income | 36,892 | 20,028 | 29,133 |
| Dividends on preferred stock | (774 ) | (887 ) | (780 ) |
| Net income available to common stockholders | $36,118 | $19,141 | $28,353 |
| Comprehensive income attributable to Parent | $35,900 | $20,147 | $28,459 |

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Parent Company Only Statements of Cash Flows:

| | Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | 2015 |
| Cash flows from operating activities: | | | |
| Net income | $36,892 | $20,028 | $29,133 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Equity in undistributed subsidiary income | (30,347) | (22,308) | (32,846) |
| Net accretion of securities | (800) | (174) | — |
| Amortization of junior subordinated debentures | 413 | 325 | 67 |
| Amortization of subordinated notes issuance costs | 94 | 23 | — |
| Loss on intercompany sale of loans[1] | — | 794 | — |
| Loss on sale of loans | — | 80 | — |
| Income from CLO warehouse investments | (2,226) | (3,184) | (1,151) |
| Change in other assets | 6,689 | 3,293 | 980 |
| Change in accrued expenses and other liabilities | 2,950 | (5,279) | 10,316 |
| Net cash provided by (used in) operating activities | 13,665 | (6,402) | 6,499 |
| Cash flows from investing activities: | | | |
| Investment in subsidiaries | (6,199) | 14,295 | 325 |
| Purchases of securities held to maturity | (5,092) | (3,342) | — |
| Proceeds from maturities, calls, and pay downs of securities held to maturity | 715 | 136 | — |
| Purchases of loans (shared national credits) | — | — | (18,601) |
| Proceeds from sale of loans | — | 16,058 | — |
| Net change in loans | (10,062) | 539 | 146 |
| Net cash paid for CLO warehouse investments | (10,000) | (25,000) | (20,500) |
| Net proceeds from CLO warehouse investments | 30,000 | 25,500 | 2,450 |
| Cash used in acquisition of subsidiaries, net | (40,075) | (69,946) | — |
| Net cash provided by (used in) investing activities | (40,713) | (41,760) | (36,180) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of subordinated notes, net | — | 48,676 | — |
| Issuance of common stock, net of expenses | 65,509 | — | — |
| Dividends on preferred stock | (774) | (887) | (780) |
| Redemption of TARP preferred stock | — | (10,500) | — |
| Purchase of Treasury Stock | (366) | (654) | (343) |
| Stock option exercises | 283 | — | — |
| Net cash provided by (used in) financing activities | 64,652 | 36,635 | (1,123) |
| Net increase (decrease) in cash and cash equivalents | 37,604 | (11,527) | (30,804) |
| Cash and cash equivalents at beginning of period | 10,222 | 21,749 | 52,553 |
| Cash and cash equivalents at end of period | $47,826 | $10,222 | $21,749 |

(1)

During the year ended December 31, 2016, a loss was recorded by the parent company as the result of an intercompany sale of loans to its subsidiary, TBK Bank, at the loans’ fair value. The discount on the purchase of the loans recorded by TBK Bank was fully amortized during the year ended December 31, 2017. The parent company loss on sale of the loans and the TBK Bank discount were eliminated in consolidation. The following table presents a reconciliation of parent company stockholders’ equity to consolidated stockholders’ equity at for the year ended December 31, 2016:

| (Dollars in thousands) | Year Ended December 31, 2016 |
|---|---|
| Parent company stockholders' equity | $ 288,673 |
| Parent company loss on intercompany sale of loans | 794 |
| TBK Bank discount accretion | (122 ) |
| Consolidated stockholders' equity | $ 289,345 |

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 21 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

| | Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | 2015 |
| Basic | | | |
| Net income to common stockholders | $35,446 | $19,813 | $28,353 |
| Weighted average common shares outstanding | 19,133,745 | 17,856,828 | 17,720,479 |
| Basic earnings per common share | $1.85 | $1.11 | $1.60 |
| | | | |
| Diluted | | | |
| Net income to common stockholders | $35,446 | $19,813 | $28,353 |
| Dilutive effect of preferred stock | 774 | — | 780 |
| Net income to common stockholders - diluted | $36,220 | $19,813 | $29,133 |
| Weighted average common shares outstanding | 19,133,745 | 17,856,828 | 17,720,479 |
| Dilutive effects of: | | | |
| Restricted stock | 68,079 | 110,565 | 79,821 |
| Assumed exercises of stock options | 45,653 | 3,128 | — |
| Assumed exercises of stock warrants | 82,567 | 83,010 | 48,238 |
| Assumed conversion of Preferred A | 315,773 | — | 315,773 |
| Assumed conversion of Preferred B | 354,471 | — | 360,578 |
| Average shares and dilutive potential common shares | 20,000,288 | 18,053,531 | 18,524,889 |
| Diluted earnings per common share | $1.81 | $1.10 | $1.57 |

Shares that were not considered in computing diluted earnings per common share because they were antidilutive are as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Shares assumed to be converted from Preferred Stock Series A | — | 315,773 | — |
| Shares assumed to be converted from Preferred Stock Series B | — | 360,578 | — |
| Restricted stock awards | — | — | — |
| Stock options | 57,926 | — | — |

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 – BUSINESS SEGMENT INFORMATION

The following presents the Company’s operating segments. The accounting policies of the segments are substantially similar to those described in Note 1 – Summary of Significant Accounting Policies. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Factoring segment based on the Company’s prime rate. The provision for loan loss is allocated based on the segment’s ALLL determination. Noninterest income and expense directly attributable to a segment are assigned to it. Taxes are paid on a consolidated basis but not allocated for segment purposes. The Factoring segment includes only factoring originated by TBC. General factoring services not originated through TBC are included in the Banking segment. On March 31, 2017, we sold our 100% membership interest in TCA. As a result, the Asset Management segment had no operations subsequent to March 31, 2017.

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

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

| (Dollars in thousands)<br>Year Ended December 31, 2015 | Banking | Factoring | Asset<br>Management | Corporate | Consolidated |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Total interest income | $65,831 | $32,103 | $ 108 | $ 718 | $ 98,760 |
| Intersegment interest allocations | 3,144 | (3,144) | — | — | — |
| Total interest expense | 6,978 | — | 10 | 1,121 | 8,109 |
| Net interest income (expense) | 61,997 | 28,959 | 98 | (403) | 90,651 |
| Provision for loan losses | 3,226 | 1,303 | — | — | 4,529 |
| Net interest income (expense) after provision | 58,771 | 27,656 | 98 | (403) | 86,122 |
| Bargain purchase gain | — | — | 15,117 | — | 15,117 |
| Other noninterest income | 9,644 | 1,739 | 5,757 | 1,040 | 18,180 |
| Noninterest expense | 51,249 | 17,871 | 6,866 | 5,879 | 81,865 |
| Operating income (loss) | $17,166 | $11,524 | $ 14,106 | $ (5,242) | $ 37,554 |

136

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

NOTE 23 — QUARTERLY FINANCIAL DATA (UNAUDITED)

The following presents quarterly financial data for the years ended December 31, 2017 and 2016.

| | Year Ended December 31, 2017 | | | |
|---|---|---|---|---|
| (Dollars in thousands) | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Interest income | $52,217 | $45,137 | $43,538 | $36,332 |
| Interest expense | 6,421 | 5,625 | 4,981 | 4,513 |
| Net interest income | 45,796 | 39,512 | 38,557 | 31,819 |
| Provision for loan losses | 1,931 | 572 | 1,447 | 7,678 |
| Net interest income after provision | 43,865 | 38,940 | 37,110 | 24,141 |
| Gain on sale of subsidiary | — | — | — | 20,860 |
| Other noninterest income | 3,998 | 4,171 | 5,202 | 6,425 |
| Noninterest income | 3,998 | 4,171 | 5,202 | 27,285 |
| Noninterest expense | 33,231 | 28,225 | 27,321 | 34,837 |
| Net income before income taxes | 14,632 | 14,886 | 14,991 | 16,589 |
| Income tax expense | 8,327 | 5,104 | 5,331 | 6,116 |
| Net income | 6,305 | 9,782 | 9,660 | 10,473 |
| Dividends on preferred stock | (194 ) | (195 ) | (193 ) | (192 ) |
| Net income available to common stockholders | $6,111 | $9,587 | $9,467 | $10,281 |
| Earnings per common share | | | | |
| Basic | $0.29 | $0.48 | $0.53 | $0.57 |
| Diluted | $0.29 | $0.47 | $0.51 | $0.55 |

| | Year Ended December 31, 2016 | | | |
|---|---|---|---|---|
| (Dollars in thousands) | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Interest income | $37,774 | $33,471 | $28,354 | $24,893 |
| Interest expense | 4,230 | 3,053 | 2,447 | 2,404 |

| | | | | |
|---|---|---|---|---|
| Net interest income | 33,544 | 30,418 | 25,907 | 22,489 |
| Provision for loan losses | 2,446 | 2,819 | 1,939 | (511 ) |
| Net interest income after provision | 31,098 | 27,599 | 23,968 | 23,000 |
| Noninterest income | 6,208 | 6,099 | 3,668 | 4,981 |
| Noninterest expense | 26,911 | 25,792 | 20,331 | 20,078 |
| Net income before income taxes | 10,395 | 7,906 | 7,305 | 7,903 |
| Income tax expense | 4,134 | 3,099 | 2,679 | 2,897 |
| Net income | 6,261 | 4,807 | 4,626 | 5,006 |
| Dividends on preferred stock | (197 ) | (301 ) | (195 ) | (194 ) |
| Net income available to common stockholders | $6,064 | $4,506 | $4,431 | $4,812 |
| Earnings per common share | | | | |
| Basic | $0.34 | $0.25 | $0.25 | $0.27 |
| Diluted | $0.33 | $0.25 | $0.25 | $0.27 |

## NOTE 24 — SUBSEQUENT EVENTS

### 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. See additional details in Note 2 – Business Combinations and Divestitures.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the 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 defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report on Management's Assessment of Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). The Company's internal control system is a process designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with GAAP. All internal control systems, no matter how well designed, have inherent limitations and can only provide reasonable assurance with respect to financial reporting.

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 of the Treadway Commission in 2013. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2017.

Crowe Horwath LLP, the independent registered public accounting firm, audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K. Their report is included in Part IV, Item 15. Exhibits, Financial Statement Schedules under the heading "Report of Independent Registered Public Accounting Firm." This Annual Report on Form 10-K does not include an attestation report on management's assessment of internal control over financial reporting from the Company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for an Emerging Growth Company.

ITEM 9B. OTHER INFORMATION.

None.

# PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.

The information called for by this Item will be contained in our definitive Proxy Statement for our 2018 Annual Meeting of Stockholders, and is incorporated herein by reference.

## ITEM 11. EXECUTIVE COMPENSATION.

The information called for by this Item will be contained in our definitive Proxy Statement for our 2018 Annual Meeting of Stockholders, and is incorporated herein by reference.

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

The information called for by this Item will be contained in our definitive Proxy Statement for our 2018 Annual Meeting of Stockholders, and is incorporated herein by reference.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information called for by this Item will be contained in our definitive Proxy Statement for our 2018 Annual Meeting of Stockholders, and is incorporated herein by reference.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information called for by this Item will be contained in our definitive Proxy Statement for our 2018 Annual Meeting of Stockholders, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) Documents filed as part of this Report.

1., 2. Financial Statements and Schedules

The following financial statements of Triumph Bancorp, Inc., incorporated herein by reference to Item 8, Financial Statements and Supplementary Data:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2017 and 2016
- Consolidated Statements of Income for the Years Ended December 31, 2017, 2016, and 2015
- Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016, and 2015
- Consolidated Statements of Changes in 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

Financial statement schedules have been omitted as they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

3. Exhibits (Exhibits marked with a "†" denote management contracts or compensatory plans or arrangements)

2.1 Agreement and Plan of Merger, dated as of July 26, 2017, by and among Valley Bancorp, Inc., Triumph Bancorp, Inc. and James J. O'Dell as Shareholder Representative incorporated by reference to Exhibit 2.1 to Form 8-K filed with the SEC on July 26, 2017.*

2.2 Agreement and Plan of Merger, dated as of March 6, 2016, by and among ColoEast Bankshares, Inc., Triumph Bancorp, Inc. and Peak Acquisition Corp., incorporated by reference to Exhibit 2.1 to Form 8-K filed with the SEC on March 7, 2016.

3.1 Second Amended and Restated Certificate of Formation of the Registrant, effective November 7, 2014, incorporated by reference to Exhibit 3.1 to Form 8-K filed with the SEC on November 13, 2014.

3.2 Second Amended and Restated Bylaws of the Registrant, effective November 7, 2014, incorporated by reference to Exhibit 3.2 to Form 8-K filed with the SEC on November 13, 2014.

4.1 Specimen common stock certificate of Triumph Bancorp, Inc., incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 333-198838).

4.2 Indenture, dated as of September 30, 2016, between Triumph Bancorp, Inc., as Issuer, and Wells Fargo Bank, National Association, as Trustee, incorporated by reference to Exhibit 4.1 to Form 8-K filed with the SEC on September 30, 2016.

4.3 First Supplemental Indenture, dated as of September 30, 2016, between Triumph Bancorp, Inc., as Issuer, and Wells Fargo Bank, National Association, as Trustee, incorporated by reference to Exhibit 4.2 to Form 8-K filed with the SEC on September 30, 2016.

Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company has not filed as an exhibit to this Form 10-K certain instruments defining the rights of the holders of certain additional long-term debt of the Company and its subsidiaries, none of which authorize a total amount of indebtedness in excess of 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of any of these agreements to the SEC upon request.

10.1† Amended and Restated Employment Agreement of Aaron P. Graft dated March 30, 2016, incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on March 30, 2016.

141

| | |
|---|---|
| 10.2† | Amended and Restated Employment Agreement of Gail Lehmann dated March 30, 2016, incorporated by reference to Exhibit 10.2 to Form 8-K filed with the SEC on March 30, 2016. |
| 10.3† | Amended and Restated Employment Agreement of R. Bryce Fowler dated March 30, 2016, incorporated by reference to Exhibit 10.3 to Form 8-K filed with the SEC on March 30, 2016. |
| 10.4† | Amended and Restated Employment Agreement of Adam D. Nelson, dated March 30, 2016, incorporated by reference to Exhibit 10.4 to Form 10-Q filed with the SEC on May 5, 2016. |
| 10.5† | Amended and Restated Employment Agreement of Daniel J. Karas, dated March 30, 2016, incorporated by reference to Exhibit 10.1 to Form 10-Q filed with the SEC on August 3, 2016. |
| 10.6† | Triumph Bancorp, Inc. Senior Executive Incentive Plan, incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-198838). |
| 10.7† | Triumph Bancorp, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-198838). |
| 10.8† | Form of Restricted Stock Award Agreement under Triumph Bancorp, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 333-198838). |
| 10.9 | Triumph Bancorp, Inc. Warrant to Triumph Consolidated Cos., LLC for the Purchase of Common Shares dated December 12, 2012, incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 (File No. 333-198838). |
| 10.10† | Form of Restricted Stock Award Agreement under Triumph Bancorp, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.5 to Form 10-Q filed with the SEC on May 5, 2016. |
| 10.11† | Form of Nonqualified Option Agreement under Triumph Bancorp, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.6 to Form 10-Q filed with the SEC on May 5, 2016. |
| 10.12† | Form of Director Award Letter under Triumph Bancorp, Inc. 2014 Omnibus Incentive Plan., incorporated by reference to Exhibit 10.7 to Form 10-Q filed with the SEC on May 5, 2016. |
| 10.13 | Form of Voting and Support Agreement, dated as of March 6, 2016, by and among Triumph Bancorp, Inc., ColoEast Bankshares, Inc. and the shareholder parties thereto (included as Exhibit A to Exhibit 2.1 to the Company's Current Report on Form 8-K dated March 7, 2016). |
| 10.14† | Form of Indemnification Agreement, incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (File No. 333-198838). |
| 10.15 | Underwriting Agreement, dated September 28, 2016, between Triumph Bancorp, Inc. and Sandler O'Neill + Partners, L.P. and FIG Partners, LLC, incorporated by reference to Exhibit 1.1 to Form 8-K filed with the SEC on September 30, 2016. |
| 14.1 | Corporate Code of Ethics. |
| 21.1 | Subsidiaries of Triumph Bancorp, Inc. |
| 23.1 | Consent of Crowe Horwath LLP. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 XBRL Instance Document.

*The schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided to the SEC upon request.

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.

TRIUMPH BANCORP, INC.
(Registrant)

Date: February 13, 2018 /s/ Aaron P. Graft
Aaron P. Graft
President and Chief Executive Officer

Date: February 13, 2018 /s/ R. Bryce Fowler
R. Bryce Fowler
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Name | Title | Date |
|---|---|---|
| /s/ Aaron P. Graft<br>Aaron P. Graft | Director and President and Chief Executive Officer<br>(Principal Executive Officer) | February 13, 2018 |
| /s/ R. Bryce Fowler<br>R. Bryce Fowler | Executive Vice President and<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer) | February 13, 2018 |
| /s/ Carlos M. Sepulveda, Jr.<br>Carlos M. Sepulveda, Jr. | Director and Chairman | February 13, 2018 |
| /s/ Charles A. Anderson<br>Charles A. Anderson | Director | February 13, 2018 |
| /s/ Richard Davis<br>Richard Davis | Director | February 13, 2018 |
| /s/ Robert Dobrient<br>Robert Dobrient | Director | February 13, 2018 |
| /s/ Douglas M. Kratz<br>Douglas M. Kratz | Director | February 13, 2018 |
| /s/ Maribess L. Miller<br>Maribess L. Miller | Director | February 13, 2018 |
| /s/ Fred Perpall<br>Fred Perpall | Director | February 13, 2018 |
| /s/ Michael P. Rafferty<br>Michael P. Rafferty | Director | February 13, 2018 |
| /s/ C. Todd Sparks<br>C. Todd Sparks | Director | February 13, 2018 |
| /s/ Justin N. Trail | Director | February 13, 2018 |

Justin N. Trail

144