Triumph Bancorp, Inc.
Form 10-Q
October 20, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

OR

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

Commission File Number 001-36722

TRIUMPH BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

12700 Park Central Drive, Suite 1700

Dallas, Texas 75251

(Address of principal executive offices)

(214) 365-6900

(Registrant’s telephone number, including area code)

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

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

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

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

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

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

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

Common Stock — $0.01 par value, 20,820,900 shares, as of October 17, 2017

TRIUMPH BANCORP, INC.

FORM 10-Q

September 30, 2017

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PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2017 and December 31, 2016

(Dollar amounts in thousands, except per share amounts)

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Cash and due from banks	$ 34,120	$ 38,613
Interest bearing deposits with other banks	46,437	75,901
Total cash and cash equivalents	80,557	114,514
Securities - available for sale	209,326	275,029
Securities - held to maturity, fair value of $17,659 and $30,821, respectively	17,999	29,352
Loans, net of allowance for loan and lease losses of $20,367 and $15,405, respectively	2,405,096	2,012,219
Federal Home Loan Bank stock, at cost	16,076	8,430
Premises and equipment, net	43,678	45,460
Other real estate owned, net	10,753	6,077
Goodwill	28,810	28,810
Intangible assets, net	13,642	17,721
Bank-owned life insurance	37,025	36,509
Deferred tax assets, net	14,130	18,825
Other assets	29,069	48,121
Total assets	$ 2,906,161	$ 2,641,067
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 403,643	$ 363,351
Interest bearing	1,608,902	1,652,434
Total deposits	2,012,545	2,015,785
Customer repurchase agreements	19,869	10,490
Federal Home Loan Bank advances	385,000	230,000
Subordinated notes	48,804	48,734
Junior subordinated debentures	33,047	32,740
Other liabilities	20,799	13,973
Total liabilities	2,520,064	2,351,722
Commitments and contingencies - See Note 8 and Note 9		
Stockholders' equity - See Note 12		
Preferred Stock	9,658	9,746
Common stock	209	182
Additional paid-in-capital	264,531	197,157

Treasury stock, at cost	(1,760)	(1,374)
Retained earnings	113,245	83,910
Accumulated other comprehensive income (loss)	214	(276)
Total stockholders’ equity	386,097	289,345
Total liabilities and stockholders' equity	$ 2,906,161	$ 2,641,067

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three and Nine Months Ended September 30, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest and dividend income:				
Loans, including fees	$30,863	$23,123	$86,711	$57,758
Factored receivables, including fees	12,198	9,021	32,177	25,482
Securities	1,655	1,218	5,004	2,941
FHLB stock	51	16	129	39
Cash deposits	370	93	986	498
Total interest income	45,137	33,471	125,007	86,718
Interest expense:				
Deposits	3,272	2,408	9,198	6,421
Subordinated notes	837	—	2,508	—
Junior subordinated debentures	495	382	1,435	996
Other borrowings	1,021	263	1,978	487
Total interest expense	5,625	3,053	15,119	7,904
Net interest income	39,512	30,418	109,888	78,814
Provision for loan losses	572	2,819	9,697	4,247
Net interest income after provision for loan losses	38,940	27,599	100,191	74,567
Noninterest income:				
Service charges on deposits	1,046	984	3,003	2,338
Card income	956	767	2,700	1,890
Net OREO gains (losses) and valuation adjustments	15	63	(86)	(1,152)
Net gains (losses) on sale of securities	35	(68)	35	(63)
Net gains on sale of loans	—	—	—	16
Fee income	625	655	1,845	1,693
Asset management fees	—	1,553	1,717	4,787
Gain on sale of subsidiary	—	—	20,860	—
Other	1,494	2,145	6,584	5,239
Total noninterest income	4,171	6,099	36,658	14,748
Noninterest expense:				
Salaries and employee benefits	16,717	14,699	54,687	39,180
Occupancy, furniture and equipment	2,398	1,921	7,105	4,937
FDIC insurance and other regulatory assessments	294	143	790	648

Professional fees	1,465	1,874	4,671	4,048
Amortization of intangible assets	870	958	2,892	2,652
Advertising and promotion	804	779	2,653	1,926
Communications and technology	2,145	1,966	6,552	4,661
Other	3,532	3,452	11,033	8,149
Total noninterest expense	28,225	25,792	90,383	66,201
Net income before income tax	14,886	7,906	46,466	23,114
Income tax expense	5,104	3,099	16,551	8,675
Net income	9,782	4,807	29,915	14,439
Dividends on preferred stock	(195)	(301)	(580)	(690)
Net income available to common stockholders	$9,587	$4,506	$29,335	$13,749
Earnings per common share				
Basic	$0.48	$0.25	$1.58	$0.77
Diluted	$0.47	$0.25	$1.53	$0.76

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Nine Months Ended September 30, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$9,782	$4,807	$29,915	$14,439
Other comprehensive income:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period	124	(597)	815	1,396
Reclassification of amount realized through sale of securities	(35)	68	(35)	63
Tax effect	(33)	196	(290)	(544)
Total other comprehensive income (loss)	56	(333)	490	915
Comprehensive income	$9,838	$4,474	$30,405	$15,354

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Preferred Stock Liquidation Preference Amount	Common Stock Shares Outstanding	Common Stock Par Amount	Additional Paid-in-Capital	Treasury Stock Shares Outstanding	Treasury Stock Cost	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance, January 1, 2016	$ 9,746	18,018,200	$ 181	$ 194,297	34,523	$ (560)	$ 64,097	$ 277	$ 268,038
Issuance of restricted stock awards	—	101,105	1	(1)	—	—	—	—	—
Stock based compensation	—	—	—	1,864	—	—	—	—	1,864
Forfeiture of restricted stock awards	—	(7,274)	—	111	7,274	(111)	—	—	—
Excess tax benefit on restricted stock vested	—	—	—	35	—	—	—	—	35
Purchase of treasury stock		(5,053)	—	—	5,053	(80)		—	(80)
Series A preferred dividends	—	—	—	—	—	—	(274)	—	(274)
Series B preferred dividends	—	—	—	—	—	—	(312)	—	(312)
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	—	—	—	—	—	—	14,439	—	14,439
Other comprehensive income	—	—	—	—	—	—	—	915	915
Balance, September 30, 2016	$9,746	18,106,978	$182	$196,306	46,850	$(751)	$77,846	$1,192	$284,521
Balance, January 1, 2017	$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	65,503	—	—	—	—	65,528
Issuance of restricted stock awards	—	45,732	—	—	—	—	—	—	—
Stock based compensation	—	—	—	1,484	—	—	—	—	1,484
Forfeiture of restricted stock awards	—	(853)	—	20	853	(20)	—	—	—
Stock option exercises, net	—	22,731	—	281	—	—	—	—	281
Warrant exercises, net	—	153,134	2	(2)	—	—	—	—	—
Purchase of treasury stock	—	(14,197)	—	—	14,197	(366)	—	—	(366)
Preferred stock converted to common stock	(88)	6,106	—	88	—	—	—	—	—
Series A preferred dividends	—	—	—	—	—	—	(273)	—	(273)
Series B preferred dividends	—	—	—	—	—	—	(307)	—	(307)
Net income	—	—	—	—	—	—	29,915	—	29,915
Other comprehensive income	—	—	—	—	—	—	—	490	490
Balance, September 30, 2017	$9,658	20,820,900	$209	$264,531	91,168	$(1,760)	$113,245	$214	$386,097

See accompanying condensed notes to consolidated financial statements.

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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$29,915	$14,439
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	2,892	1,905
Net accretion on loans and deposits	(5,374)	(4,833)
Amortization of subordinated notes issuance costs	70	—
Amortization of junior subordinated debentures	307	225
Net amortization on securities	823	1,242
Amortization of intangible assets	2,892	2,652
Deferred taxes	4,405	(427)
Provision for loan losses	9,697	4,247
Stock based compensation	1,484	1,864
Origination of loans held for sale	—	(891)
Proceeds from sale of loans originated for sale	—	2,248
Net (gains) losses on sale of securities	(35)	63
Net (gain) loss on loans transferred to loans held for sale	46	(167)
Net gains on sale of loans	—	(16)
Net OREO (gains) losses and valuation adjustments	86	1,152
Gain on sale of subsidiary	(20,860)	—
Income from CLO warehouse investments	(1,954)	(2,415)
(Increase) decrease in other assets	1,857	3,746
Increase (decrease) in other liabilities	6,741	(3,458)
Net cash provided by (used in) operating activities	32,992	21,576
Cash flows from investing activities:		
Purchases of securities available for sale	(5,042)	(3,414)
Proceeds from sales of securities available for sale	2,936	24,327
Proceeds from maturities, calls, and pay downs of securities available for sale	66,253	17,330
Purchases of securities held to maturity	(5,092)	(29,117)
Proceeds from maturities, calls, and pay downs of securities held to maturity	17,993	—
Purchases of loans (shared national credits)	—	(995)
Proceeds from sale of loans	1,919	9,057
Net change in loans	(394,859)	(222,326)
Purchases of premises and equipment, net	(1,390)	(3,003)
Net proceeds from sale of OREO	1,708	1,709

Net cash paid for CLO warehouse investments	—	(15,000)
Net proceeds from CLO warehouse investments	20,000	25,500
(Purchases) redemptions of FHLB stock, net	(7,646)	(4,029)
Cash paid for acquisitions, net of cash acquired	—	(14,479)
Proceeds from sale of subsidiary, net	10,269	—
Net cash provided by (used in) investing activities	(292,951)	(214,440)
Cash flows from financing activities:		
Net increase in deposits	(3,240)	48,894
Increase (decrease) in customer repurchase agreements	9,379	6,012
Increase (decrease) in Federal Home Loan Bank advances	155,000	100,000
Proceeds from the issuance of other borrowings	—	48,676
Issuance of common stock, net of expenses	65,528	—
Redemption of TARP preferred stock	—	(10,500)
Stock option exercises	281	—
Purchase of treasury stock	(366)	(80)
Dividends on preferred stock	(580)	(690)
Net cash provided by (used in) financing activities	226,002	192,312
Net increase (decrease) in cash and cash equivalents	(33,957)	(552)
Cash and cash equivalents at beginning of period	114,514	105,277
Cash and cash equivalents at end of period	$80,557	$104,725

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Supplemental cash flow information:		
Interest paid	$13,609	$7,415
Income taxes paid, net	$7,676	$7,478
Supplemental noncash disclosures:		
Loans transferred to OREO	$6,194	$425
Premises transferred to OREO	$276	$2,215
Loans transferred to loans held for sale	$1,919	$18,680
Consideration received from sale of subsidiary	$12,123	$—

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

TBK Bank also does business under the following names: (i) Triumph Community Bank (“TCB”) with respect to its community banking business in certain markets; (ii) Triumph Commercial Finance (“TCF”) with respect to its asset based lending, equipment lending and general factoring commercial finance products; (iii) Triumph Healthcare Finance (“THF”) with respect to its healthcare asset based lending business; and (iv) Triumph Premium Finance (“TPF”) with respect to its insurance premium financing business.

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

Basis of Presentation

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal and recurring adjustments considered necessary for a fair presentation. Transactions between the subsidiaries have been eliminated. These condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The Company has four reportable segments consisting of Banking, Factoring, Asset Management, and Corporate. The Company’s Chief Executive Officer uses segment results to make operating and strategic decisions. On March 31, 2017 the Company sold its membership interests in TCA, which comprised the entirety of the Asset Management segment’s operations. See Note 2 – Business Combinations and Divestitures for details of the TCA sale and its impact on the Company’s 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 consolidated 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.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Newly Issued, But Not Yet Effective Accounting Standards

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2018. Adoption of the ASU is not expected to 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, is not expected to change significantly from current practice. The standard permits the use of either the full retrospective or modified retrospective transition method. The Company is currently planning to use the modified retrospective transition method which requires application of ASU 2014-09 to uncompleted contracts at the date of adoption. Periods prior to the date of adoption are not retrospectively revised, but a cumulative effect of adoption is recognized for the impact of the ASU on uncompleted contracts at the date of adoption.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). The guidance affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. ASU 2016-01 will be 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 September 30, 2017, the Company had contractual operating lease commitments of approximately $6,459,000, before considering renewal options that are generally present.

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.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 – Business combinations AND DIVESTITURES

Valley Bancorp, Inc.

On July 26, 2017, the Company entered into an agreement to acquire Valley Bancorp, Inc. (“Valley”) and its community banking subsidiary, Valley Bank & Trust, in an all-cash transaction for $39,000,000, subject to certain adjustments based upon Valley’s tangible book value at the closing of the transaction. Valley had total assets of $331,000,000, total loans of $174,000,000, and total deposits of $296,000,000 as of September 30, 2017. 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. The transaction is expected to close during the fourth quarter of 2017 and is subject to certain customary closing conditions, including receipt of regulatory approval.

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. The Company purchased approximately $99,000,000 in loans and assumed approximately $162,000,000 in deposits associated with the branches for an aggregate deposit premium of approximately $6,800,000 or 4.2%.

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 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 is being amortized for tax purposes.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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, offered 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 transferred 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 is not being amortized for tax purposes.

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

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

Expenses related to the acquisition, including professional fees and integration costs, totaling $1,618,000 were recorded in noninterest expense in the consolidated statements of income during the three months ended September 30, 2016.

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 September 30, 2017 and December 31, 2016 are as follows:

(Dollars in thousands) September 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	$ 125,347	$ 449	$ (422)	$ 125,374
U.S. Treasury notes	1,936	15	—	1,951
Mortgage-backed securities, residential	21,150	390	(101)	21,439
Asset backed securities	12,492	60	(71)	12,481
State and municipal	25,169	21	(133)	25,057

Corporate bonds	20,752	110	(4)	20,858
SBA pooled securities	139	2	—	141
Mutual fund	2,000	25	—	2,025
Total available for sale securities	$ 208,985	$ 1,072	$ (731)	$ 209,326

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 17,999	$ 548	$ (888)	$ 17,659

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(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

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 29,352	$ 1,527	$ (58)	$ 30,821

The amortized cost and estimated fair value of securities at September 30, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale Securities		Held to Maturity Securities	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 46,995	$ 46,965	$ —	$ —
Due from one year to five years	104,197	104,315	—	—
Due from five years to ten years	7,570	7,520	9,470	10,017
Due after ten years	14,442	14,440	8,529	7,642
	173,204	173,240	17,999	17,659
Mortgage-backed securities, residential	21,150	21,439	—	—
Asset backed securities	12,492	12,481	—	—
SBA pooled securities	139	141	—	—
Mutual fund	2,000	2,025	—	—

	$208,985	$209,326	$17,999	$17,659

Proceeds from sales of securities and the associated gross gains and losses for the three and nine months ended September 30, 2017 and 2016 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2017	2016	2017	2016
Proceeds	$2,936	$19,982	$2,936	$24,327
Gross gains	35	5	35	10
Gross losses	—	73	—	73

Securities with a carrying amount of approximately $123,616,000 and $194,571,000 at September 30, 2017 and December 31, 2016, respectively, were pledged to secure public deposits, customer repurchase agreements, and for other purposes required or permitted by law.

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Information pertaining to securities with gross unrealized and unrecognized losses at September 30, 2017 and December 31, 2016, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands) September 30, 2017	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
U.S. Government agency obligations	$10,139	$ (20)	$44,942	$ (402)	$55,081	$ (422)
U.S. Treasury notes	—	—	—	—	—	—
Mortgage-backed securities, residential	4,308	(34)	2,039	(67)	6,347	(101)
Asset backed securities	4,900	(71)	—	—	4,900	(71)
State and municipal	6,448	(31)	13,840	(102)	20,288	(133)
Corporate bonds	371	(4)	—	—	371	(4)
SBA pooled securities	—	—	—	—	—	—
Mutual fund	—	—	—	—	—	—
	$26,166	$ (160)	$60,821	$ (571)	$86,987	$ (731)

	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands) September 30, 2017	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Held to maturity securities:						
CLO securities	$1,863	$ (26)	$5,779	$ (862)	$7,642	$ (888)

	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands) December 31, 2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
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)

Less than 12 Months	12 Months or More	Total

(Dollars in thousands) December 31, 2016	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	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.

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At September 30, 2017, the Company had 71 securities in an unrealized loss position. Management does not have the intent to sell any of these securities and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe that any of the securities are impaired due to reasons of credit quality. Accordingly, as of September 30, 2017, management believes that the unrealized losses detailed in the previous table are temporary and no other than temporary impairment loss has been recognized in the Company's consolidated statements of income.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents the recorded investment and unpaid principal for loans at September 30, 2017 and December 31, 2016:

	September 30, 2017			December 31, 2016		
(Dollars in thousands)	Recorded Investment	Unpaid Principal	Difference	Recorded Investment	Unpaid Principal	Difference
Commercial real estate	$574,530	$579,896	$(5,366)	$442,237	$447,926	$(5,689)
Construction, land development, land	141,368	143,200	(1,832)	109,812	113,211	(3,399)
1-4 family residential properties	96,032	97,469	(1,437)	104,974	106,852	(1,878)
Farmland	130,471	131,528	(1,057)	141,615	142,673	(1,058)
Commercial	890,372	893,268	(2,896)	778,643	783,349	(4,706)
Factored receivables	341,880	343,684	(1,804)	238,198	239,432	(1,234)
Consumer	30,093	30,110	(17)	29,764	29,782	(18)
Mortgage warehouse	220,717	220,717	—	182,381	182,381	—
Total	2,425,463	$2,439,872	$(14,409)	2,027,624	$2,045,606	$(17,982)
Allowance for loan and lease losses	(20,367)			(15,405)		
	$2,405,096			$2,012,219		

The difference between the recorded investment and the unpaid principal balance is primarily associated with (1) premiums and discounts associated with acquisition date fair value adjustments on acquired loans (both PCI and non-PCI) totaling $10,807,000 and $15,210,000 at September 30, 2017 and December 31, 2016, respectively, and (2) net deferred origination and factoring fees totaling $3,602,000 and $2,772,000 at September 30, 2017 and December 31, 2016, respectively.

At September 30, 2017 and December 31, 2016, the Company had $31,833,000 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 $505,516,000 and $497,573,000 at September 30, 2017 and December 31, 2016, respectively, were pledged to secure Federal Home Loan Bank borrowing capacity.

During the nine months ended September 30, 2017, loans with a carrying amount of $1,965,000 were transferred to loans held for sale as the Company made the decision to sell the loans. These loans were subsequently sold resulting in proceeds of $1,919,000 and losses on sale of loans of $46,000, which were recorded as other noninterest income in the consolidated statements of income for the nine months ended September 30, 2017. No loans were transferred to loans held for sale during the three months ended September 30, 2017. During the three and nine months ended September 30, 2016, loans with a carrying amount of $14,394,000 and $18,513,000, respectively, were transferred to loans held for sale. These loans were subsequently sold resulting in proceeds of $14,642,000 and $18,680,000, respectively, and gains on sale of loans of $248,000 and $167,000, respectively.

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Allowance for Loan and Lease Losses

The activity in the allowance for loan and lease losses ("ALLL") during the three and nine months ended September 30, 2017 and 2016 is as follows:

(Dollars in thousands) Three months ended September 30, 2017	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 2,506	$ 58	$ —	$ —	$ 2,564
Construction, land development, land	915	210	—	—	1,125
1-4 family residential properties	149	111	(1)	23	282
Farmland	261	(22)	—	—	239
Commercial	10,603	(629)	(755)	929	10,148
Factored receivables	4,507	645	(136)	30	5,046
Consumer	627	208	(270)	178	743
Mortgage warehouse	229	(9)	—	—	220
	$ 19,797	$ 572	$ (1,162)	$ 1,160	$ 20,367

(Dollars in thousands) Three months ended September 30, 2016	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 1,792	$ 123	$ (4)	$ 1	$ 1,912
Construction, land development, land	181	44	—	7	232
1-4 family residential properties	259	(10)	—	6	255
Farmland	143	(22)	—	—	121
Commercial	6,697	2,521	(1,615)	217	7,820
Factored receivables	4,204	(7)	(285)	33	3,945
Consumer	293	114	(68)	29	368
Mortgage warehouse	203	56	—	—	259
	$ 13,772	$ 2,819	$ (1,972)	$ 293	$ 14,912

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(Dollars in thousands) Nine months ended September 30, 2017	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 1,813	$ 888	$ (137)	$ —	$ 2,564
Construction, land development, land	465	1,235	(582)	7	1,125
1-4 family residential properties	253	16	(29)	42	282
Farmland	170	69	—	—	239
Commercial	8,014	4,660	(3,833)	1,307	10,148
Factored receivables	4,088	1,978	(1,102)	82	5,046
Consumer	420	813	(877)	387	743
Mortgage warehouse	182	38	—	—	220
	$ 15,405	$ 9,697	$ (6,560)	$ 1,825	$ 20,367

(Dollars in thousands) Nine months ended September 30, 2016	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 1,489	$ 413	$ (5)	$ 15	$ 1,912
Construction, land development, land	367	(142)	—	7	232
1-4 family residential properties	274	(38)	(63)	82	255
Farmland	134	(13)	—	—	121
Commercial	5,276	3,680	(1,784)	648	7,820
Factored receivables	4,509	77	(743)	102	3,945
Consumer	216	313	(223)	62	368
Mortgage warehouse	302	(43)	—	—	259
	$ 12,567	$ 4,247	$ (2,818)	$ 916	$ 14,912

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

(Dollars in thousands)	Loan Evaluation				ALLL Allocations			
September 30, 2017	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
Commercial real estate	$ 843	$ 563,655	$ 10,032	$ 574,530	$ 125	$ 2,439	$ —	$ 2,564
Construction, land development, land	136	138,379	2,853	141,368	—	1,125	—	1,125
1-4 family residential properties	1,923	92,991	1,118	96,032	152	130	—	282
Farmland	3,241	127,116	114	130,471	—	239	—	239
Commercial	21,120	868,414	838	890,372	2,152	7,996	—	10,148
Factored receivables	4,519	337,361	—	341,880	1,517	3,529	—	5,046
Consumer	162	29,931	—	30,093	—	743	—	743
Mortgage warehouse	—	220,717	—	220,717	—	220	—	220
	$ 31,944	$ 2,378,564	$ 14,955	$ 2,425,463	$ 3,946	$ 16,421	$ —	$ 20,367

(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

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

	Impaired Loans and Purchased Credit Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance	
(Dollars in thousands) September 30, 2017	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$ 168	$ 168	$ 125	$ 675	$ 709
Construction, land development, land	—	—	—	136	136
1-4 family residential properties	235	235	152	1,688	1,793
Farmland	—	—	—	3,241	3,332
Commercial	12,479	12,574	2,152	8,641	8,700
Factored receivables	4,519	4,519	1,517	—	—
Consumer	—	—	—	162	160
Mortgage warehouse	—	—	—	—	—
PCI	—	—	—	—	—
	$ 17,401	$ 17,496	$ 3,946	$ 14,543	$ 14,830

	Impaired Loans and Purchased Credit 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

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The following table presents average impaired loans and interest recognized on impaired loans for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017		Three Months Ended September 30, 2016	
(Dollars in thousands)	Average Impaired Loans	Interest Recognized	Average Impaired Loans	Interest Recognized
Commercial real estate	$853	$ —	$682	$ —
Construction, land development, land	135	—	276	—
1-4 family residential properties	1,817	16	1,030	1
Farmland	3,361	14	—	—
Commercial	22,003	167	21,648	163
Factored receivables	3,907	—	3,509	—
Consumer	136	4	43	—
Mortgage warehouse	—	—	—	—
PCI	143	—	1,442	—
	$32,355	$ 201	$28,630	$ 164

	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
(Dollars in thousands)	Average Impaired Loans	Interest Recognized	Average Impaired Loans	Interest Recognized
Commercial real estate	$1,150	$ 1	$700	$ —
Construction, land development, land	249	—	138	2
1-4 family residential properties	1,509	23	879	9
Farmland	2,287	32	—	—
Commercial	27,077	398	18,987	677
Factored receivables	3,847	—	3,617	—
Consumer	117	4	26	2
Mortgage warehouse	—	—	—	—
PCI	262	—	983	—
	$36,498	$ 458	$25,330	$ 690

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Past Due and Nonaccrual Loans

The following is a summary of contractually past due and nonaccrual loans at September 30, 2017 and December 31, 2016:

(Dollars in thousands) September 30, 2017	Past Due 30-89 Days Still Accruing	Past Due 90 Days or More Still Accruing	Nonaccrual	Total
Commercial real estate	$ 971	$ —	$ 843	$ 1,814
Construction, land development, land	10	—	136	146
1-4 family residential properties	1,710	—	1,905	3,615
Farmland	604	141	2,449	3,194
Commercial	7,036	58	16,223	23,317
Factored receivables	17,815	1,594	—	19,409
Consumer	717	—	162	879
Mortgage warehouse	—	—	—	—
PCI	—	—	1,540	1,540
	$ 28,863	$ 1,793	$ 23,258	$ 53,914

(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
	$			