Triumph Bancorp, Inc.
Form 10-Q
October 19, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

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

Commission File Number 001-36722

TRIUMPH BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

12700 Park Central Drive, Suite 1700

Dallas, Texas 75251

(Address of principal executive offices)

(214) 365-6900

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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	Smaller reporting company
Emerging growth company	

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

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

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

Common Stock — $0.01 par value, 26,279,761 shares, as of October 17, 2018.

TRIUMPH BANCORP, INC.

FORM 10-Q

September 30, 2018

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PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2018 and December 31, 2017

(Dollar amounts in thousands, except per share amounts)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and due from banks	$ 74,737	$ 59,114
Interest bearing deposits with other banks	207,672	75,015
Total cash and cash equivalents	282,409	134,129
Securities - available for sale	355,981	250,603
Securities - equity investments	4,981	5,006
Securities - held to maturity, fair value of $8,094 and $7,527, respectively	8,403	8,557
Loans held for sale	683	—
Loans, net of allowance for loan and lease losses of $27,256 and $18,748, respectively	3,484,887	2,792,108
Assets held for sale	—	71,362
Federal Home Loan Bank stock, at cost	23,109	16,006
Premises and equipment, net	82,935	62,861
Other real estate owned, net	2,442	9,191
Goodwill	158,728	44,126
Intangible assets, net	43,114	19,652
Bank-owned life insurance	40,339	44,364
Deferred tax assets, net	8,137	8,959
Other assets	40,954	32,109
Total assets	$ 4,537,102	$ 3,499,033
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 697,903	$ 564,225
Interest bearing	2,741,146	2,057,123
Total deposits	3,439,049	2,621,348
Customer repurchase agreements	13,248	11,488
Federal Home Loan Bank advances	330,000	365,000
Subordinated notes	48,903	48,828
Junior subordinated debentures	38,966	38,623
Other liabilities	50,295	22,048
Total liabilities	3,920,461	3,107,335
Commitments and contingencies - See Note 8 and Note 9		
Stockholders' equity - See Note 12		

Preferred Stock	9,658	9,658
Common stock	264	209
Additional paid-in-capital	458,920	264,855
Treasury stock, at cost	(2,285)	(1,784)
Retained earnings	152,401	119,356
Accumulated other comprehensive income (loss)	(2,317)	(596)
Total stockholders’ equity	616,641	391,698
Total liabilities and stockholders' equity	$ 4,537,102	$ 3,499,033

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, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest and dividend income:				
Loans, including fees	$41,257	$30,863	$116,288	$86,711
Factored receivables, including fees	27,939	12,198	64,033	32,177
Securities	1,551	1,655	4,040	5,004
FHLB stock	147	51	353	129
Cash deposits	865	370	2,412	986
Total interest income	71,759	45,137	187,126	125,007
Interest expense:				
Deposits	6,219	3,272	15,127	9,198
Subordinated notes	837	837	2,512	2,508
Junior subordinated debentures	714	495	2,024	1,435
Other borrowings	2,207	1,021	5,294	1,978
Total interest expense	9,977	5,625	24,957	15,119
Net interest income	61,782	39,512	162,169	109,888
Provision for loan losses	6,803	572	14,257	9,697
Net interest income after provision for loan losses	54,979	38,940	147,912	100,191
Noninterest income:				
Service charges on deposits	1,412	1,046	3,767	3,003
Card income	1,877	956	4,515	2,700
Net OREO gains (losses) and valuation adjustments	65	15	(551)	(86)
Net gains (losses) on sale of securities	—	35	(272)	35
Fee income	1,593	625	3,514	1,845
Insurance commissions	1,113	826	2,646	2,125
Asset management fees	—	—	—	1,717
Gain on sale of subsidiary or division	—	—	1,071	20,860
Other	(1)	668	1,486	4,459
Total noninterest income	6,059	4,171	16,176	36,658
Noninterest expense:				
Salaries and employee benefits	24,695	16,717	64,626	54,687
Occupancy, furniture and equipment	3,553	2,398	9,621	7,105
FDIC insurance and other regulatory assessments	363	294	945	790

Professional fees	3,384	1,465	7,102	4,671
Amortization of intangible assets	2,064	870	4,542	2,892
Advertising and promotion	1,609	804	3,938	2,653
Communications and technology	7,252	2,145	13,882	6,552
Other	6,026	3,532	15,735	11,033
Total noninterest expense	48,946	28,225	120,391	90,383
Net income before income tax	12,092	14,886	43,697	46,466
Income tax expense	2,922	5,104	10,074	16,551
Net income	9,170	9,782	33,623	29,915
Dividends on preferred stock	(195)	(195)	(578)	(580)
Net income available to common stockholders	$8,975	$9,587	$33,045	$29,335
Earnings per common share				
Basic	$0.34	$0.48	$1.37	$1.58
Diluted	$0.34	$0.47	$1.35	$1.53

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, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$9,170	$9,782	$33,623	$29,915
Other comprehensive income:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period	(605)	124	(2,494)	815
Reclassification of amount realized through sale of securities	—	(35)	272	(35)
Tax effect	137	(33)	501	(290)
Total other comprehensive income (loss)	(468)	56	(1,721)	490
Comprehensive income	$8,702	$9,838	$31,902	$30,405

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, 2018 and 2017

(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 (Loss)	Total Equity
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
Balance, January 1, 2018	$ 9,658	20,820,445	$ 209	$ 264,855	91,951	$ (1,784)	$ 119,356	$ (596)	$ 391,698
Issuance of common stock, net of expenses	—	5,405,000	54	191,999	—	—	—	—	192,053
Issuance of restricted stock awards	—	65,001	1	(1)	—	—	—	—	—
Stock based compensation	—	—	—	1,966	—	—	—	—	1,966
Forfeiture of restricted stock awards	—	(2,422)	—	105	2,422	(105)	—	—	—
Stock option exercises, net	—	1,366	—	(4)	—	—	—	—	(4)
Purchase of treasury stock	—	(9,629)	—	—	9,629	(396)	—	—	(396)
Series A preferred dividends	—	—	—	—	—	—	(273)	—	(273)
Series B preferred dividends	—	—	—	—	—	—	(305)	—	(305)
Net income	—	—	—	—	—	—	33,623	—	33,623
Other comprehensive income	—	—	—	—	—	—	—	(1,721)	(1,721)
Balance, September 30, 2018	$ 9,658	26,279,761	$ 264	$ 458,920	104,002	$ (2,285)	$ 152,401	$ (2,317)	$ 616,641

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, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	$33,623	$29,915
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	3,880	2,892
Net accretion on loans	(6,884)	(5,374)
Amortization of subordinated notes issuance costs	75	70
Amortization of junior subordinated debentures	343	307
Net amortization on securities	639	823
Amortization of intangible assets	4,542	2,892
Deferred taxes	1,329	4,405
Provision for loan losses	14,257	9,697
Stock based compensation	1,966	1,484
Net (gains) losses on sale of securities	272	(35)
Net (gain) loss on loans transferred to loans held for sale	—	46
Net OREO (gains) losses and valuation adjustments	551	86
Gain on sale of subsidiary or division	(1,071)	(20,860)
Income from CLO warehouse investments	—	(1,954)
Origination of loans held for sale	(185)	—
Proceeds from sale of loans originated for sale	740	—
(Increase) decrease in other assets	(7,084)	1,857
Increase (decrease) in other liabilities	6,107	6,741
Net cash provided by (used in) operating activities	53,100	32,992
Cash flows from investing activities:		
Purchases of securities available for sale	—	(5,042)
Proceeds from sales of securities available for sale	123,016	2,936
Proceeds from maturities, calls, and pay downs of securities available for sale	38,389	66,253
Purchases of securities held to maturity	—	(5,092)
Proceeds from maturities, calls, and pay downs of securities held to maturity	898	17,993
Proceeds from sale of loans	—	1,919
Net change in loans	(281,518)	(394,859)
Purchases of premises and equipment, net	(16,479)	(1,390)
Net proceeds from sale of OREO	7,771	1,708
Proceeds from surrender of BOLI	4,562	—
Net proceeds from CLO warehouse investments	—	20,000

(Purchases) redemptions of FHLB stock, net	(6,188)	(7,646)
Cash paid for acquisitions, net of cash acquired	(141,872)	—
Proceeds from sale of subsidiary, net	73,849	10,269
Net cash provided by (used in) investing activities	(197,572)	(292,951)
Cash flows from financing activities:		
Net increase (decrease) in deposits	135,654	(3,240)
Increase (decrease) in customer repurchase agreements	1,760	9,379
Increase (decrease) in Federal Home Loan Bank advances	(35,737)	155,000
Issuance of common stock, net of expenses	192,053	65,528
Stock option exercises	(4)	281
Purchase of treasury stock	(396)	(366)
Dividends on preferred stock	(578)	(580)
Net cash provided by (used in) financing activities	292,752	226,002
Net increase (decrease) in cash and cash equivalents	148,280	(33,957)
Cash and cash equivalents at beginning of period	134,129	114,514
Cash and cash equivalents at end of period	$282,409	$80,557

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, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Supplemental cash flow information:		
Interest paid	$21,790	$13,609
Income taxes paid, net	$8,567	$7,676
Supplemental noncash disclosures:		
Loans transferred to OREO	$221	$6,194
Premises transferred to OREO	$1,139	$276
Loans transferred to loans held for sale	$—	$1,965
Consideration received from sale of subsidiary or division	$—	$12,123

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

On March 16, 2018, the Company sold the assets of Triumph Healthcare Finance (“THF”) and exited its healthcare asset based lending line of business. THF operated within the Company’s TBK Bank subsidiary.

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 THF and TCA sales and their impact on our 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, 2017. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

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

Revenue from Contracts with Customers

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

The Company’s primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, the Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affect the determination of the amount and timing of revenue from contracts with customers.

Income Taxes

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

Adoption of New Accounting Standards

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

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

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

Newly Issued, But Not Yet Effective Accounting Standards

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. Adoption of ASU 2016-02 is not expected to have a material impact on the Company’s consolidated financial statements. The Company leases certain properties and equipment under operating leases that will result in the recognition of lease assets and lease liabilities on the Company’s balance sheet under the ASU, however, the majority of the Company’s properties and equipment are owned, not leased. At September 30, 2018, the Company had contractual operating lease commitments of approximately $21,863,000, before considering renewal options that are generally present.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

NOTE 2 – Business combinations AND DIVESTITURES

First Bancorp of Durango, Inc. and Southern Colorado Corp.

Effective September 8, 2018 the Company acquired (i) First Bancorp of Durango, Inc. ("FBD") and its community banking subsidiaries, The First National Bank of Durango and Bank of New Mexico and (ii) Southern Colorado Corp. ("SCC") and its community banking subsidiary, Citizens Bank of Pagosa Springs, in all-cash transactions. The First National Bank of Durango serves consumers and businesses from four branches in Durango, Colorado and one branch in Bayfield, Colorado, Bank of New Mexico serves consumers and businesses from three branches in Albuquerque, Gallup and Grants, New Mexico, and Citizens Bank of Pagosa Springs serves consumers and businesses from two branches in Pagosa Springs, Colorado. The acquisitions expanded the Company's market in Colorado and into New Mexico and further diversified the Company's loan, customer, and deposit base.

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

(Dollars in thousands)	FBD	SCC	Total
Assets acquired:			
Cash and cash equivalents	$ 151,973	$ 14,299	$ 166,272
Securities	237,183	33,477	270,660
Loans held for sale	1,238	—	1,238
Loans	256,384	31,454	287,838
FHLB stock	786	129	915
Premises and equipment	7,495	840	8,335
Other real estate owned	213	—	213
Intangible assets	11,915	2,154	14,069
Other assets	2,730	403	3,133

	669,917	82,756	752,673
Liabilities assumed:			
Deposits	601,194	73,464	674,658
Federal Home Loan Bank advances	737	—	737
Other liabilities	1,313	64	1,377
	603,244	73,528	676,772
Fair value of net assets acquired	66,673	9,228	75,901
Cash consideration transferred	134,667	13,294	147,961
Goodwill	$67,994	$4,066	$72,060

The Company has recognized goodwill of $72,060,000, 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 these acquisitions resulted from expected synergies and expansion in the Colorado market and into the New Mexico market. The goodwill will be deducted for tax purposes. The intangible assets recognized in the transactions will be amortized utilizing an accelerated method over their ten year estimated useful lives. The initial accounting for the acquisitions has not been completed because the fair values of the assets acquired and liabilities assumed have not yet been finalized.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In connection with the acquisitions, 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:

	Loans Excluding PCI Loans			PCI Loans			Total Loans
(Dollars in thousands)	FBD	SCC	Total	FBD	SCC	Total	Acquired
Commercial real estate	$140,955	$11,894	$152,849	$832	$200	$1,032	$153,881
Construction, land development, land	13,949	5,229	19,178	3,081	—	3,081	22,259
1-4 family residential properties	59,228	10,180	69,408	75	—	75	69,483
Farmland	5,709	1,207	6,916	—	—	—	6,916
Commercial	26,125	2,121	28,246	1,020	—	1,020	29,266
Factored receivables	—	—	—	—	—	—	—
Consumer	5,410	623	6,033	—	—	—	6,033
Mortgage warehouse	—	—	—	—	—	—	—
	$251,376	$31,254	$282,630	$5,008	$200	$5,208	$287,838

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

(Dollars in thousands)	FBD	SCC	Total
Contractually required principal and interest payments	$318,674	$38,590	$357,264
Contractual cash flows not expected to be collected	$4,255	$550	$4,805
Fair value at acquisition	$251,376	$31,254	$282,630

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

(Dollars in thousands)	FBD	SCC	Total
Contractually required principal and interest payments	$10,511	$269	$10,780
Contractual cash flows not expected to be collected (nonaccretable difference)	2,570	5	2,575
Expected cash flows at acquisition	7,941	264	8,205
Interest component of expected cash flows (accretable yield)	2,933	64	2,997
Fair value of loans acquired with deterioration of credit quality	$5,008	$200	$5,208

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following table presents supplemental pro forma information for the three and nine months ended September 30, 2018 and 2017 as if the FBD and SCC acquisitions had occurred at the beginning of 2017. The supplemental pro forma information includes adjustments for interest income on loans acquired, depreciation expense on property acquired, amortization of intangibles arising from the transactions, and the related income tax effects. Additionally, because FBD and SCC were Subchapter S corporations before the acquisitions and did not incur any federal income tax liabilities, adjustments have been included to estimate the impact of federal income taxes on FBD and SCC's net income for the periods presented. The supplemental pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transactions been completed on the assumed date.

	Three months ended September 30, 2018			Three months ended September 30, 2017		
(Dollars in thousands)	FBD	SCC	Total	FBD	SCC	Total
Net interest income	$65,694	$62,269	$66,181	$44,683	$40,147	$45,318
Noninterest income	$7,167	$6,159	$7,267	$5,404	$4,260	$5,493
Net income	$8,371	$8,578	$7,778	$10,595	$9,804	$10,617
Basic earnings per common share	$0.31	$0.32	$0.29	$0.44	$0.48	$0.43
Diluted earnings per common share	$0.31	$0.32	$0.29	$0.43	$0.47	$0.43

	Nine months ended September 30, 2018			Nine months ended September 30, 2017		
(Dollars in thousands)	FBD	SCC	Total	FBD	SCC	Total
Net interest income	$176,441	$163,916	$178,188	$125,098	$111,756	$126,966
Noninterest income	$19,679	$16,618	$20,121	$40,072	$37,028	$40,442
Net income	$34,179	$33,458	$34,013	$32,291	$30,065	$32,441
Basic earnings per common share	$1.31	$1.35	$1.30	$1.42	$1.55	$1.40
Diluted earnings per common share	$1.30	$1.33	$1.28	$1.39	$1.51	$1.37

The operations of FBD and SCC are included in the Company's operating results beginning September 8, 2018.

Expenses related to the acquisitions, including professional fees and other transaction costs, totaling $5,871,000 were recorded in noninterest expense in the consolidated statements of income during the three months ended September 30, 2018.

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Interstate Capital Corporation

On June 2, 2018, the Company acquired substantially all of the operating assets of, and assumed certain liabilities associated with, Interstate Capital Corporation's ("ICC") accounts receivable factoring business and other related financial services. ICC operates out of offices located in El Paso, Texas and Santa Teresa, New Mexico and provides invoice factoring to small and medium-sized businesses.

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	$75
Factored receivables	131,017
Premises and equipment	279
Intangible assets	13,920
Other assets	144
	145,435
Liabilities assumed:	
Deposits	7,389
Other liabilities	763
	8,152
Fair value of net assets acquired	137,283
Consideration:	
Cash paid	160,258
Contingent consideration	20,000
Total consideration	180,258
Goodwill	$42,975

ICC's net assets acquired were allocated to the Company's Factoring segment whose factoring operations were significantly expanded as a result of the transaction. The Company has recognized goodwill of $42,975,000, which was calculated as the excess of both the fair value of cash consideration exchanged and the fair value of the contingent liability assumed as compared to the fair value of identifiable net assets acquired and was allocated to the Company's Factoring segment. The goodwill in this acquisition resulted from expected synergies and expansion in the factoring market. The goodwill will be deducted for tax purposes. The intangible assets recognized include a customer relationship intangible asset with an acquisition date fair value of $13,500,000 which will be amortized utilizing an accelerated method over its eight year estimated useful life and a trade name intangible asset with an acquisition date fair value of $420,000 which will be amortized on a straight-line basis over its three year estimated useful life.

Consideration paid included contingent consideration with an acquisition date fair value of $20,000,000. The contingent consideration is based on a proprietary index designed to approximate the rise and fall of transportation invoice prices subsequent to acquisition and is correlated to historical monthly movements in average invoice prices historically experienced by ICC. At the end of a 30 month earnout period, a final average index price will be calculated and the contingent consideration will be settled in cash based on the final average index price. Final contingent consideration payout will range from $0 to $22,000,000 and the fair value of the associated liability will be remeasured each reporting period with changes in fair value reflected in operating results. The fair value of the contingent consideration was $20,487,000 at September 30, 2018.

The operations of ICC are reflected in the Company's Factoring segment and included in the Company's operating results beginning June 2, 2018. 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.

Expenses related to the acquisition, including professional fees and other transaction costs, totaling $1,094,000 were recorded in noninterest expense in the consolidated statements of income during the three months ended June 30, 2018.

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Triumph Healthcare Finance

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

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

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

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

Valley Bancorp, Inc.

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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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 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 three months ended December 31, 2017.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 accounting for the acquisition has been finalized.

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

(Dollars in thousands)	
Commercial real estate	$ 13,382
Construction, land development, land	537
1-4 family residential properties	6,986
Farmland	31,490
Commercial	43,104
Factored receivables	—
Consumer	295
Mortgage warehouse	—

$95,794

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Triumph Capital Advisors, LLC

On March 31, 2017, the Company sold its wholly owned asset management subsidiary, Triumph Capital Advisors, LLC, to an unrelated third party. The transaction was completed to enhance shareholder value and provide a platform for TCA to operate without the impact of regulations intended for depository institutions 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 or division	21,260
Transaction costs	400
Gain on sale of subsidiary or division, 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.

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 $1,725,000 at September 30, 2018. The Company received the first cash proceeds of $174,000 from the revenue share during the nine months ended September 30, 2018.

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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(Unaudited)

NOTE 3 - SECURITIES

Equity Securities

The Company held equity securities with fair values of $4,981,000 and $5,006,000 at September 30, 2018 and December 31, 2017, respectively. During the three and nine months ended September 30, 2018, the Company recognized unrealized losses of $44,000 and $25,000, respectively, on the equity securities held at September 30, 2018, which were recorded in noninterest income in the consolidated statements of income. There were no sales of equity securities during the three and nine months ended September 30, 2018.

Debt Securities

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

(Dollars in thousands) September 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	$ 96,102	$ —	$ (1,328)	$ 94,774
U.S. Treasury notes	1,952	—	(47)	1,905
Mortgage-backed securities, residential	31,067	155	(641)	30,581
Asset backed securities	10,803	36	(34)	10,805
State and municipal	145,017	70	(1,025)	144,062
Corporate bonds	69,088	43	(145)	68,986
SBA pooled securities	4,952	5	(89)	4,868
Total available for sale securities	$ 358,981	$ 309	$ (3,309)	$ 355,981

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 8,403	$ 230	$ (539)	$ 8,094

(Dollars in thousands) December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				

U.S. Government agency obligations	$ 110,531	$ 76	$ (717)	$ 109,890
U.S. Treasury notes	1,940	—	(6)	1,934
Mortgage-backed securities, residential	33,537	306	(180)	33,663
Asset backed securities	11,883	47	(85)	11,845
State and municipal	74,684	150	(443)	74,391
Corporate bonds	15,271	52	(3)	15,320
SBA pooled securities	3,535	27	(2)	3,560
Total available for sale securities	$ 251,381	$ 658	$ (1,436)	$ 250,603

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The amortized cost and estimated fair value of securities at September 30, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale Securities		Held to Maturity Securities	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$87,890	$87,668	$—	$—
Due from one year to five years	175,252	173,829	—	—
Due from five years to ten years	38,428	37,827	3,052	3,282
Due after ten years	10,589	10,403	5,351	4,812
	312,159	309,727	8,403	8,094
Mortgage-backed securities, residential	31,067	30,581	—	—
Asset backed securities	10,803	10,805	—	—
SBA pooled securities	4,952	4,868	—	—
	$358,981	$355,981	$8,403	$8,094

Proceeds from sales of debt securities and the associated gross gains and losses are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017	2018	2017
Proceeds	$88,820	$2,936	$123,016	$2,936
Gross gains	—	35	5	35
Gross losses	—	—	(277)	—

Debt securities with a carrying amount of approximately $107,249,000 and $85,985,000 at September 30, 2018 and December 31, 2017, 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 debt securities with gross unrealized and unrecognized losses, 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, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
U.S. Government agency obligations	$62,335	$ (685)	$32,439	$ (643)	$94,774	$ (1,328)
U.S. Treasury notes	1,905	(47)	—	—	1,905	(47)
Mortgage-backed securities, residential	12,554	(349)	5,782	(292)	18,336	(641)
Asset backed securities	110	(2)	4,967	(32)	5,077	(34)
State and municipal	100,141	(804)	9,917	(221)	110,058	(1,025)
Corporate bonds	45,583	(144)	149	(1)	45,732	(145)
SBA pooled securities	3,920	(89)	—	—	3,920	(89)
	$226,548	$ (2,120)	$53,254	$ (1,189)	$279,802	$ (3,309)

	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands) September 30, 2018	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Held to maturity securities:						
CLO securities	$—	$ —	$4,812	$ (539)	$4,812	$ (539)

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

	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)

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

At September 30, 2018, the Company had 516 debt securities in an unrealized loss position. Management does not have the intent to sell any of these securities and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe that any of the securities are impaired due to reasons of credit quality. Accordingly, as of September 30, 2018, management believes that the unrealized losses detailed in the previous table are temporary and no other than temporary impairment loss has been recognized in the Company's consolidated statements of income.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents the recorded investment and unpaid principal for loans:

	September 30, 2018			December 31, 2017		
(Dollars in thousands)	Recorded Investment	Unpaid Principal	Difference	Recorded Investment	Unpaid Principal	Difference
Commercial real estate	$906,494	$914,503	$(8,009)	$745,893	$753,803	$(7,910)
Construction, land development, land	190,920	195,075	(4,155)	134,812	138,045	(3,233)
1-4 family residential properties	194,752	196,361	(1,609)	125,827	127,499	(1,672)
Farmland	177,313	180,599	(3,286)	180,141	184,006	(3,865)
Commercial	1,123,598	1,127,844	(4,246)	920,812	924,133	(3,321)
Factored receivables	611,285	613,832	(2,547)	374,410	376,046	(1,636)
Consumer	31,423	31,576	(153)	31,131	31,144	(13)
Mortgage warehouse	276,358	276,358	—	297,830	297,830	—
Total	3,512,143	$3,536,148	$(24,005)	2,810,856	$2,832,506	$(21,650)
Allowance for loan and lease losses	(27,256)			(18,748)		
	$3,484,887			$2,792,108		

The difference between the recorded investment and the unpaid principal balance is primarily (1) premiums and discounts associated with acquisition date fair value adjustments on acquired loans (both PCI and non-PCI) totaling $20,869,000 and $18,706,000 at September 30, 2018 and December 31, 2017, respectively, and (2) net deferred origination and factoring fees totaling $3,136,000 and $2,944,000 at September 30, 2018 and December 31, 2017, respectively.

At September 30, 2018 and December 31, 2017, the Company had $54,917,000 and $32,459,000, respectively, of customer reserves associated with factored receivables. These amounts represent customer reserves held to settle any payment disputes or collection shortfalls, may be used to pay customers’ obligations to various third parties as directed by the customer, are periodically released to or withdrawn by customers, and are reported as deposits in the consolidated balance sheets.

Loans with carrying amounts of $680,070,000 and $596,230,000 at September 30, 2018 and December 31, 2017, 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 a reduction in other noninterest income in the consolidated statements of income. No loans were transferred to loans held for sale during the three months ended September 30, 2018 and 2017. There were no loans sold during the nine months ended September 30, 2018, other than those included in the sale of THF. See Note 2 – Business Combinations and Divestitures for details of the THF sale and its impact on our consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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Allowance for Loan and Lease Losses

The activity in the allowance for loan and lease losses (“ALLL”) is as follows:

(Dollars in thousands) Three months ended September 30, 2018	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 3,803	$ 136	$ —	$ 103	$ 4,042
Construction, land development, land	1,025	244	—	2	1,271
1-4 family residential properties	240	15	(3)	7	259
Farmland	509	(6)	—	—	503
Commercial	10,230	6,324	(4,074)	273	12,753
Factored receivables	7,727	64	(228)	8	7,571
Consumer	670	93	(286)	104	581
Mortgage warehouse	343	(67)	—	—	276
	$ 24,547	$ 6,803	$ (4,591)	$ 497	$ 27,256

(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) Nine months ended September 30, 2018	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 3,435	$ 506	$ (2)	$ 103	$ 4,042
Construction, land development, land	883	376	—	12	1,271
1-4 family residential properties	293	(29)	(17)	12	259
Farmland	310	393	(200)	—	503
Commercial	8,150	8,895	(4,701)	409	12,753
Factored receivables	4,597	3,850	(928)	52	7,571
Consumer	783	287	(776)	287	581
Mortgage warehouse	297	(21)	—	—	276

	$ 18,748	$ 14,257	$ (6,624)	$ 875	$ 27,256

(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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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(Unaudited)

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

(Dollars in thousands)	Loan Evaluation				ALLL Allocations			
September 30, 2018	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
Commercial real estate	$7,847	$887,834	$10,813	$906,494	$581	$ 3,461	$ —	$ 4,042
Construction, land development, land	221	183,862	6,837	190,920	74	1,197	—	1,271
1-4 family residential properties	2,240	191,868	644	194,752	125	134	—	259
Farmland	4,156	172,782	375	177,313	72	431	—	503
Commercial	19,680	1,102,309	1,609	1,123,598	1,496	11,253	4	12,753
Factored receivables	6,841	604,444	—	611,285	1,916	5,655	—	7,571
Consumer	256	31,167	—	31,423	29	552	—	581
Mortgage warehouse	—	276,358	—	276,358	—	276	—	276
	$41,241	$3,450,624	$20,278	$3,512,143	$4,293	$ 22,959	$ 4	$ 27,256

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2018	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$6,031	$6,079	$ 581	$1,816	$1,869
Construction, land development, land	167	168	74	54	54
1-4 family residential properties	223	216	125	2,017	2,124
Farmland	914	900	72	3,242	3,524
Commercial	3,620	3,616	1,496	16,060	16,261
Factored receivables	6,841	6,841	1,916	—	—
Consumer	92	86	29	164	169
Mortgage warehouse	—	—	—	—	—
PCI	71	55	4	—	—
	$17,959	$17,961	$ 4,297	$23,353	$24,001

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

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The following table presents average impaired loans and interest recognized on impaired:

	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
(Dollars in thousands)	Average Impaired Loans	Interest Recognized	Average Impaired Loans	Interest Recognized
Commercial real estate	$6,861	$ 70	$853	$ —
Construction, land development, land	181	1	135	—
1-4 family residential properties	2,205	21	1,817	16
Farmland	3,835	10	3,361	14
Commercial	24,579	46	22,003	167
Factored receivables	5,724	—	3,907	—
Consumer	260	3	136	4
Mortgage warehouse	—	—	—	—
PCI	75	—	143	—
	$43,720	$ 151	$32,355	$ 201

	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
(Dollars in thousands)	Average Impaired Loans	Interest Recognized	Average Impaired Loans	Interest Recognized
Commercial real estate	$4,429	$ 76	$1,150	$ 1
Construction, land development, land	178	1	249	—
1-4 family residential properties	2,439	25	1,509	23
Farmland	3,978	27	2,287	32
Commercial	23,149	665	27,077	398
Factored receivables	5,783	—	3,847	—
Consumer	320	4	117	4
Mortgage warehouse	—	—	—	—
PCI	35	—	262	—
	$40,311	$ 798	$36,498	$ 458

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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Past Due and Nonaccrual Loans

The following is a summary of contractually past due and nonaccrual loans:

(Dollars in thousands) September 30, 2018	Past Due 30-89 Days Still Accruing	Past Due 90 Days or More Still Accruing	Nonaccrual	Total
Commercial real estate	$ 2,493	$ —	$ 7,873	$ 10,366
Construction, land development, land	769	—	221	990
1-4 family residential properties	1,253	79	2,156	3,488
Farmland	—	—	3,387	3,387
Commercial	3,976	246	16,865	21,087
Factored receivables	32,645	2,252	—	34,897
Consumer	820	—	276	1,096
Mortgage warehouse	—	—	—	—
PCI	206	—	2,969	3,175
	$ 42,162	$ 2,577	$ 33,747	$78,486

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

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

(Dollars in thousands)	September 30, 2018	December 31, 2017
Nonaccrual loans[1]	$ 33,747	$ 32,149
Factored receivables greater than 90 days past due	2,252	1,454
Troubled debt restructurings accruing interest	3,603	5,128
	$ 39,602	$ 38,731

(1) Includes troubled debt restructurings of $3,927,000 and $14,009,000 at September 30, 2018 and December 31, 2017, respectively.

Credit Quality Information

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current collateral and financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. 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.

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Substandard:

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

Doubtful:

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

PCI:

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

As of September 30, 2018 and December 31, 2017, based on the most recent analysis performed, the risk category of loans is as follows:

(Dollars in thousands) September 30, 2018	Pass	Substandard	Doubtful	PCI	Total
Commercial real estate	$889,505	$ 6,176	$ —	$10,813	$906,494
Construction, land development, land	183,706	377	—	6,837	190,920
1-4 family residential	191,844	2,264	—	644	194,752
Farmland	171,631	5,307	—	375	177,313
Commercial	1,099,057	22,932	—	1,609	1,123,598
Factored receivables	605,002	5,340	943	—	611,285
Consumer	31,160	263	—	—	31,423
Mortgage warehouse	276,358	—	—	—	276,358
	$3,448,263	$ 42,659	$ 943	$20,278	$3,512,143

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

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

Troubled Debt Restructurings

The Company had a recorded investment in troubled debt restructurings of $7,530,000 and $19,137,000 as of September 30, 2018 and December 31, 2017, respectively. The Company had allocated specific allowances for these loans of $640,000 and $535,000 at September 30, 2018 and December 31, 2017, respectively, and had not committed to lend additional amounts. The Company’s troubled debt restructurings are the result of granting a borrower that is experiencing financial difficulty a concession such as extending amortization periods, reducing contractual interest rates, or a combination thereof. The Company did not grant principal reductions on any restructured loans.

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The following table presents loans modified as troubled debt restructurings that occurred during the nine months ended September 30, 2018 and 2017:

(Dollars in thousands) September 30, 2018	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
1-4 family residential properties	3	$ 111	$ 111
Farmland	1	263	263
Commercial	10	875	875
Total	14	$ 1,249	$ 1,249

(Dollars in thousands) September 30, 2017	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	5	$ 2,184	$ 2,184

During the nine months ended September 30, 2018, the Company had one loan modified as troubled debt restructurings with a recorded investment of $156,000 for which there was a payment default within twelve months following the modification. During the nine months ended September 30, 2017, the Company had four loans modified as troubled debt restructurings with a recorded investment of $2,999,000 for which there were payment defaults within twelve months following the modification. The full recorded investment in one of these loans of $2,702,000 was charged off during the period. Default is determined at 90 or more days past due.

Residential Real Estate Loans In Process of Foreclosure

At September 30, 2018, the Company had $21,000 in 1-4 family residential real estate loans for which formal foreclosure proceedings were in process.

Purchased Credit Impaired Loans

The Company has loans that were acquired, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The outstanding contractually required principal and interest and the carrying amount of these loans included in the balance sheet amounts of loans at September 30, 2018 and December 31, 2017, are as follows:

	September 30, 2018	December 31, 2017
Contractually required principal and interest:		

Real estate loans	$ 22,877	$ 16,360
Commercial loans	4,141	3,501
Outstanding contractually required principal and interest	$ 27,018	$ 19,861
Gross carrying amount included in loans receivable	$ 20,278	$ 15,598

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The changes in accretable yield during the three and nine months ended September 30, 2018 and 2017 in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Accretable yield, beginning balance	$2,105	$3,126	$2,793	$4,261
Additions	2,997	—	2,997	—
Accretion	(439)	(411)	(1,177)	(3,117)
Reclassification from nonaccretable to accretable yield	124	56	174	2,067
Disposals	—	(2)	—	(442)
Accretable yield, ending balance	$4,787	$2,769	$4,787	$2,769

NOTE 5 - GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

(Dollars in thousands)	September 30, 2018	December 31, 2017
Goodwill	$ 158,728	$ 44,126

	September 30, 2018			December 31, 2017		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	$43,578	$ (14,666)	$ 28,912	$29,511	$ (11,335)	$ 18,176
Other intangible assets	15,700	(1,498)	14,202	1,764	(288)	1,476
	$59,278	$ (16,164)	$ 43,114	$31,275	$ (11,623)	$ 19,652

The changes in goodwill and intangible assets during the three and nine months ended September 30, 2018 and 2017 are as follows:

(Dollars in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Beginning balance	$117,777	$43,322	$63,778	$46,531
Acquired goodwill	72,060	—	115,035	152
Acquired intangibles	14,069	—	28,004	—
Divestiture	—	—	(433)	(1,339)
Amortization of intangibles	(2,064)	(870)	(4,542)	(2,892)
Ending balance	$201,842	$42,452	$201,842	$42,452

NOTE 6 – Variable Interest Entities

Collateralized Loan Obligation Funds – Closed

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

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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 $8,403,000 and $8,557,000 at September 30, 2018 and December 31, 2017, respectively, and are classified as held to maturity securities within the Company's consolidated balance sheets.

The Company performed a consolidation analysis to confirm whether the Company was required to consolidate the assets, liabilities, equity or operations of the closed CLO funds in its financial statements. The Company concluded that the closed CLO funds were variable interest entities and that the Company holds variable interests in the entities in the form of its investments in the subordinated notes of entities. However, the Company also concluded that the Company does not have the power to direct the activities that most significantly impact the entities' economic performance. As a result, the Company was not the primary beneficiary and therefore was not required to consolidate the assets, liabilities, equity, or operations of the closed CLO funds in the Company's financial statements.

Collateralized Loan Obligation Fund – Warehouse Phase

From time to time, the Company may invest in the subordinated debt of entities formed to be the issuers of CLO offerings during their warehouse phases. The Company's investments in these CLO funds are repaid when the CLO funds' warehouse phases are closed and the CLO offerings are issued. The Company's maximum exposure to loss as a result of its involvement with these CLO funds is limited to the carrying amount of its investments in the subordinated debt of the CLO funds. The Company did not hold any investments in the subordinated debt of CLO funds during their warehouse phase at December 31, 2017 or during the nine months ended September 30, 2018. Income from the Company's investments in CLO warehouse entities totaled $0 and $1,954,000 during the three and nine months ended September 30, 2017, respectively, which is included in other noninterest income within the Company's consolidated statements of income.

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

NOTE 7 - Deposits

Deposits at September 30, 2018 and December 31, 2017 are summarized as follows:

(Dollars in thousands)	September 30, 2018	December 31, 2017
Noninterest bearing demand	$ 697,903	$ 564,225
Interest bearing demand	608,775	403,244
Individual retirement accounts	118,459	108,505
Money market	413,402	283,969
Savings	373,062	235,296
Certificates of deposit	854,048	837,384
Brokered deposits	373,400	188,725
Total Deposits	$ 3,439,049	$ 2,621,348

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At September 30, 2018, scheduled maturities of certificates of deposits, individual retirement accounts and brokered deposits are as follows:

(Dollars in thousands)	September 30, 2018
Within one year	$ 1,052,802
After one but within two years	192,942
After two but within three years	46,448
After three but within four years	38,478
After four but within five years	8,524
After five years	6,713
Total	$ 1,345,907

Time deposits, including individual retirement accounts, certificates of deposit, and brokered deposits, with individual balances of $250,000 and greater totaled $185,443,000 and $158,197,000 at September 30, 2018 and December 31, 2017, respectively.

NOTE 8 - Legal Contingencies

Various legal claims have arisen from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

NOTE 9 - OFF-BALANCE SHEET LOAN COMMITMENTS

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

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

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

	September 30, 2018			December 31, 2017		
(Dollars in thousands)	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
Unused lines of credit	$78,708	$418,319	$497,027	$133,634	$242,236	$375,870
Standby letters of credit	$2,148	$5,641	$7,789	$1,998	$8,169	$10,167
Mortgage warehouse commitments	$—	$305,053	$305,053	$—	$239,632	$239,632

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.

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The Company records a reserve 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 September 30, 2018 and December 31, 2017, the reserve for loan and lease losses on off-balance sheet lending-related commitments totaled $511,000 and $501,000, respectively, and was included in other liabilities on the Company's consolidated balance sheets.

In addition to the commitments above, the Company had overdraft protection available in the amounts of $3,145,000 and $2,397,000 at September 30, 2018 and December 31, 2017, respectively.

NOTE 10 - Fair Value Disclosures

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

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

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

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

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

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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 September 30, 2018 and December 31, 2017.

(Dollars in thousands)	Fair Value Measurements Using			Total
September 30, 2018	Level 1	Level 2	Level 3	Fair Value
Securities available for sale				
U.S. Government agency obligations	$—	$94,774	$ —	$94,774
U.S. Treasury notes	—	1,905	—	1,905
Mortgage-backed securities, residential	—	30,581	—	30,581
Asset backed securities	—	10,805	—	10,805
State and municipal	—	144,062	—	144,062
Corporate bonds	—	68,986	—	68,986
SBA pooled securities	—	4,868	—	4,868
	$—	$355,981	$ —	$355,981