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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

OR

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

Commission File Number 001-36722

TRIUMPH BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

12700 Park Central Drive, Suite 1700

Dallas, Texas 75251

(Address of principal executive offices)

(214) 365-6900

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

TRIUMPH BANCORP, INC.

FORM 10-Q

March 31, 2018

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PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 31, 2018 and December 31, 2017

(Dollar amounts in thousands, except per share amounts)

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

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

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended March 31, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

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

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Three Months Ended March 31, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

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

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

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

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

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

Principles of Consolidation and Basis of Presentation

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

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

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

Revenue from Contracts with Customers

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Income Taxes

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

Adoption of New Accounting Standards

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

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

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

Newly Issued, But Not Yet Effective Accounting Standards

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

NOTE 2 – Business combinations AND DIVESTITURES

Triumph Healthcare Finance

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

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

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

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

Valley Bancorp, Inc.

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

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

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Independent Bank – Colorado Branches

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

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

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

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

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

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

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

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

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

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Triumph Capital Advisors, LLC

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

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

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

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

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

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

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NOTE 3 - SECURITIES

Equity Securities

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

Debt Securities

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

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

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

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

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

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

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

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

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

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

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

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

Less than 12 Months	12 Months or More	Total

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

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

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

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

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

At March 31, 2018, the Company had 162 debt securities in an unrealized loss position. Management does not have the intent to sell any of these securities and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe that any of the securities are impaired due to reasons of credit quality. Accordingly, as of March 31, 2018, management believes that the unrealized losses detailed in the previous table are temporary and no other than temporary impairment loss has been recognized in the Company’s consolidated statements of income.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

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

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

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

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

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

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

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

Allowance for Loan and Lease Losses

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

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

(Dollars in thousands)	Beginning	Ending

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

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

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

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

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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) March 31, 2018	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$ 157	$ 157	$ 123	$ 724	$ 741
Construction, land development, land	88	88	21	51	51
1-4 family residential properties	362	374	141	1,970	2,075
Farmland	1,114	1,100	200	3,040	3,342
Commercial	17,065	17,167	1,636	11,632	11,707
Factored receivables	3,742	3,742	484	—	—
Consumer	367	354	112	62	37
Mortgage warehouse	—	—	—	—	—
PCI	—	—	—	—	—
	$ 22,895	$ 22,982	$ 2,717	$ 17,479	$ 17,953

	Impaired Loans and Purchased Credit				
	Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance	
(Dollars in thousands) December 31, 2017	Recorded Investment	Unpaid Principal	Related	Recorded	Unpaid