Triumph Bancorp, Inc.
Form 10-Q
July 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 June 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 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, 26,265,983 shares, as of July 17, 2018.

TRIUMPH BANCORP, INC.

FORM 10-Q

June 30, 2018

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2018 and December 31, 2017

(Dollar amounts in thousands, except per share amounts)

| | June 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 56,029 | $ 59,114 |
| Interest bearing deposits with other banks | 77,336 | 75,015 |
| Total cash and cash equivalents | 133,365 | 134,129 |
| Securities - available for sale | 183,184 | 250,603 |
| Securities - equity investments | 5,025 | 5,006 |
| Securities - held to maturity, fair value of $8,093 and $7,527, respectively | 8,673 | 8,557 |
| Loans, net of allowance for loan and lease losses of $24,547 and $18,748, respectively | 3,171,915 | 2,792,108 |
| Assets held for sale | — | 71,362 |
| Federal Home Loan Bank stock, at cost | 19,223 | 16,006 |
| Premises and equipment, net | 68,313 | 62,861 |
| Other real estate owned, net | 2,528 | 9,191 |
| Goodwill | 86,668 | 44,126 |
| Intangible assets, net | 31,109 | 19,652 |
| Bank-owned life insurance | 40,168 | 44,364 |
| Deferred tax assets, net | 8,810 | 8,959 |
| Other assets | 35,650 | 32,109 |
| Total assets | $ 3,794,631 | $ 3,499,033 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Deposits | | |
| Noninterest bearing | $ 561,033 | $ 564,225 |
| Interest bearing | 2,063,909 | 2,057,123 |
| Total deposits | 2,624,942 | 2,621,348 |
| Customer repurchase agreements | 10,509 | 11,488 |
| Federal Home Loan Bank advances | 420,000 | 365,000 |
| Subordinated notes | 48,878 | 48,828 |
| Junior subordinated debentures | 38,849 | 38,623 |
| Other liabilities | 44,228 | 22,048 |
| Total liabilities | 3,187,406 | 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 | 457,980 | 264,855 |
| Treasury stock, at cost | (2,254) | (1,784) |
| Retained earnings | 143,426 | 119,356 |
| Accumulated other comprehensive income (loss) | (1,849) | (596) |
| Total stockholders’ equity | 607,225 | 391,698 |
| Total liabilities and stockholders' equity | $ 3,794,631 | $ 3,499,033 |

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three and Six Months Ended June 30, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Interest and dividend income: | | | | |
| Loans, including fees | $38,148 | $30,663 | $75,031 | $55,848 |
| Factored receivables, including fees | 20,791 | 10,812 | 36,094 | 19,979 |
| Securities | 1,179 | 1,738 | 2,489 | 3,349 |
| FHLB stock | 101 | 36 | 206 | 78 |
| Cash deposits | 1,030 | 289 | 1,547 | 616 |
| Total interest income | 61,249 | 43,538 | 115,367 | 79,870 |
| Interest expense: | | | | |
| Deposits | 4,631 | 3,057 | 8,908 | 5,926 |
| Subordinated notes | 838 | 836 | 1,675 | 1,671 |
| Junior subordinated debentures | 713 | 475 | 1,310 | 940 |
| Other borrowings | 1,810 | 613 | 3,087 | 957 |
| Total interest expense | 7,992 | 4,981 | 14,980 | 9,494 |
| Net interest income | 53,257 | 38,557 | 100,387 | 70,376 |
| Provision for loan losses | 4,906 | 1,447 | 7,454 | 9,125 |
| Net interest income after provision for loan losses | 48,351 | 37,110 | 92,933 | 61,251 |
| Noninterest income: | | | | |
| Service charges on deposits | 1,210 | 977 | 2,355 | 1,957 |
| Card income | 1,394 | 917 | 2,638 | 1,744 |
| Net OREO gains (losses) and valuation adjustments | (528) | (112) | (616) | (101) |
| Net gains (losses) on sale of securities | — | — | (272) | — |
| Fee income | 1,121 | 637 | 1,921 | 1,220 |
| Insurance commissions | 819 | 708 | 1,533 | 1,299 |
| Asset management fees | — | — | — | 1,717 |
| Gain on sale of subsidiary or division or division | — | — | 1,071 | 20,860 |
| Other | 929 | 2,075 | 1,487 | 3,791 |
| Total noninterest income | 4,945 | 5,202 | 10,117 | 32,487 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 20,527 | 16,012 | 39,931 | 37,970 |
| Occupancy, furniture and equipment | 3,014 | 2,348 | 6,068 | 4,707 |
| FDIC insurance and other regulatory assessments | 383 | 270 | 582 | 496 |
| Professional fees | 2,078 | 1,238 | 3,718 | 3,206 |

| | | | | |
|---|---|---|---|---|
| Amortization of intangible assets | 1,361 | 911 | 2,478 | 2,022 |
| Advertising and promotion | 1,300 | 911 | 2,329 | 1,849 |
| Communications and technology | 3,271 | 2,233 | 6,630 | 4,407 |
| Other | 5,469 | 3,398 | 9,709 | 7,501 |
| Total noninterest expense | 37,403 | 27,321 | 71,445 | 62,158 |
| Net income before income tax | 15,893 | 14,991 | 31,605 | 31,580 |
| Income tax expense | 3,508 | 5,331 | 7,152 | 11,447 |
| Net income | 12,385 | 9,660 | 24,453 | 20,133 |
| Dividends on preferred stock | (193) | (193) | (383) | (385) |
| Net income available to common stockholders | $12,192 | $9,467 | $24,070 | $19,748 |
| Earnings per common share | | | | |
| Basic | $0.48 | $0.53 | $1.04 | $1.10 |
| Diluted | $0.47 | $0.51 | $1.02 | $1.07 |

See accompanying condensed notes to consolidated financial statements.

3

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Six Months Ended June 30, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | $12,385 | $9,660 | $24,453 | $20,133 |
| Other comprehensive income: | | | | |
| Unrealized gains (losses) on securities: | | | | |
| Unrealized holding gains (losses) arising during the period | (181 ) | 357 | (1,889 ) | 691 |
| Reclassification of amount realized through sale of securities | — | — | 272 | — |
| Tax effect | 42 | (133 ) | 364 | (257 ) |
| Total other comprehensive income (loss) | (139 ) | 224 | (1,253 ) | 434 |
| Comprehensive income | $12,246 | $9,884 | $23,200 | $20,567 |

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| | Preferred Stock | Common Stock | | | Treasury Stock | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Liquidation Preference Amount | Shares Outstanding | Par Amount | Additional Paid-in-Capital | Shares Outstanding | 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 restricted stock awards | — | 40,541 | — | — | — | — | — | — | — |
| Stock based compensation | — | — | — | 1,025 | — | — | — | — | 1,025 |
| Forfeiture of restricted stock awards | — | (843 ) | — | 19 | 843 | (19 ) | — | — | — |
| Stock option exercises, net | — | 22,731 | — | 281 | — | — | — | — | 281 |
| Purchase of treasury stock | — | (14,197 ) | — | — | 14,197 | (366 ) | — | — | (366 ) |
| Preferred stock converted to common stock | (88 ) | 6,106 | — | 88 | — | — | — | — | — |
| Series A preferred dividends | — | — | — | — | — | — | (181 ) | — | (181 ) |
| Series B preferred dividends | — | — | — | — | — | — | (204 ) | — | (204 ) |
| Net income | — | — | — | — | — | — | 20,133 | — | 20,133 |
| Other comprehensive income | — | — | — | — | — | — | — | 434 | 434 |
| Balance, June 30, 2017 | $ 9,658 | 18,132,585 | $ 182 | $ 198,570 | 91,158 | $ (1,759 ) | $ 103,658 | $ 158 | $ 310,467 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 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 | — | 45,290 | 1 | (1 ) | — | — | — | — | — |
| Stock based compensation | — | — | — | 1,053 | — | — | — | — | 1,053 |
| Forfeiture of restricted stock awards | — | (1,792 ) | — | 78 | 1,792 | (78 ) | — | — | — |
| Stock option exercises, net | — | 1,366 | — | (4 ) | — | — | — | — | (4 ) |
| Purchase of treasury stock | — | (9,524 ) | — | — | 9,524 | (392 ) | — | — | (392 ) |
| Series A preferred dividends | — | — | — | — | — | — | (181 ) | — | (181 ) |
| Series B preferred dividends | — | — | — | — | — | — | (202 ) | — | (202 ) |
| Net income | — | — | — | — | — | — | 24,453 | — | 24,453 |
| Other comprehensive income | — | — | — | — | — | — | — | (1,253 ) | (1,253 ) |
| Balance, June 30, 2018 | $ 9,658 | 26,260,785 | $ 264 | $ 457,980 | 103,267 | $ (2,254 ) | $ 143,426 | $ (1,849 ) | $ 607,225 |

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income | $24,453 | $20,133 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 2,435 | 1,925 |
| Net accretion on loans and deposits | (5,614) | (3,965) |
| Amortization of subordinated notes issuance costs | 50 | 46 |
| Amortization of junior subordinated debentures | 226 | 203 |
| Net amortization on securities | 477 | 837 |
| Amortization of intangible assets | 2,478 | 2,022 |
| Deferred taxes | 518 | 3,457 |
| Provision for loan losses | 7,454 | 9,125 |
| Stock based compensation | 1,053 | 1,025 |
| 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 | 616 | 101 |
| Gain on sale of subsidiary or division | (1,071) | (20,860) |
| Income from CLO warehouse investments | — | (1,954) |
| (Increase) decrease in other assets | (4,785) | 5,010 |
| Increase (decrease) in other liabilities | 1,417 | 3,296 |
| Net cash provided by (used in) operating activities | 29,979 | 20,447 |
| Cash flows from investing activities: | | |
| Purchases of securities available for sale | — | (5,042) |
| Proceeds from sales of securities available for sale | 34,196 | — |
| Proceeds from maturities, calls, and pay downs of securities available for sale | 30,373 | 51,819 |
| Purchases of securities held to maturity | — | (5,092) |
| Proceeds from maturities, calls, and pay downs of securities held to maturity | 368 | 9,308 |
| Proceeds from sale of loans | — | 1,919 |
| Net change in loans | (250,851) | (265,788) |
| Purchases of premises and equipment, net | (8,407) | (699) |
| Net proceeds from sale of OREO | 7,067 | 1,588 |
| Proceeds from surrender of BOLI | 4,562 | — |
| Net proceeds from CLO warehouse investments | — | 20,000 |
| (Purchases) redemptions of FHLB stock, net | (3,217) | (6,136) |
| Cash paid for acquisitions, net of cash acquired | (160,183) | — |

| | | |
|---|---|---|
| Proceeds from sale of subsidiary, net | 73,849 | 10,269 |
| Net cash provided by (used in) investing activities | (272,243) | (187,854) |
| Cash flows from financing activities: | | |
| Net increase (decrease) in deposits | (3,795) | 56,396 |
| Increase (decrease) in customer repurchase agreements | (979) | 4,469 |
| Increase (decrease) in Federal Home Loan Bank advances | 55,000 | 110,000 |
| Issuance of common stock, net of expenses | 192,053 | — |
| Stock option exercises | (4) | 281 |
| Purchase of treasury stock | (392) | (366) |
| Dividends on preferred stock | (383) | (385) |
| Net cash provided by (used in) financing activities | 241,500 | 170,395 |
| Net increase (decrease) in cash and cash equivalents | (764) | 2,988 |
| Cash and cash equivalents at beginning of period | 134,129 | 114,514 |
| Cash and cash equivalents at end of period | $133,365 | $117,502 |

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| | Six Months Ended June 30, 2018 | 2017 |
|---|---|---|
| Supplemental cash flow information: | | |
| Interest paid | $13,646 | $8,996 |
| Income taxes paid, net | $3,474 | $4,655 |
| Supplemental noncash disclosures: | | |
| Loans transferred to OREO | $221 | $6,079 |
| Premises transferred to OREO | $799 | $273 |
| 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 six months ended June 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.

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 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 June 30, 2018, the Company had contractual operating lease commitments of approximately $22,092,000, 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

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 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.

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

On April 9, 2018 the Company entered into agreements to acquire (i) First Bancorp of Durango, Inc. and its community banking subsidiaries, First National Bank of Durango and Bank of New Mexico and (ii) Southern Colorado Corp. and its community banking subsidiary, Citizens Bank of Pagosa Springs for aggregate cash consideration of approximately $147,500,000. At December 31, 2017, First Bancorp of Durango, Inc. had $646,000,000 in assets, including $271,000,000 in loans, and $574,000,000 in deposits, and Southern Colorado Corp. had $88,000,000 in assets, including $37,000,000 in loans, and $79,000,000 in deposits. The transactions are expected to close during the third quarter of 2018 and are subject to certain customary closing conditions, including receipt of regulatory approvals.

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.

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) | |
|---|---|
| Assets acquired: | |
| Cash and cash equivalents | $38,473 |
| Securities | 97,687 |
| Loans | 171,199 |
| FHLB stock | 315 |
| Premises and equipment | 6,238 |