

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 (I.R.S. Employer

incorporation or organization) Identification No.)

12700 Park Central Drive, Suite 1700

Dallas, Texas 75251

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(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

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PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

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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

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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

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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.

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 Liquidation Preference	Common Stock Shares	Par	Additional Paid-in- Capital	Treasury Stock Shares	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

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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)	—

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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.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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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
Other real estate owned	2,282
Intangible assets	6,072
Bank-owned life insurance	7,153
Other assets	1,882
	331,301
Liabilities assumed:	
Deposits	293,398
Junior subordinated debentures	5,470
Other liabilities	2,881
	301,749
Fair value of net assets acquired	29,552
Consideration transferred	40,075
Goodwill	\$10,523

The Company has recognized goodwill of \$10,523,000, which was calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable net assets acquired and was allocated to the Company's Banking segment. The goodwill in this acquisition resulted from expected synergies and expansion in the Colorado market. The goodwill will be deducted for tax purposes. The intangible assets recognized in the transaction will be amortized utilizing an accelerated method over their ten year estimated useful lives. Effective June 30, 2018 the Company reversed a previously established \$1.7 million measurement period adjustment for a post-retirement benefit obligation related to an acquired split-dollar bank-owned life insurance policy based on new information obtained about the acquired policy's conditions existing at the acquisition date. 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:

	Loans, Excluding	PCI Loans	Total Loans
(Dollars in thousands)			

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	PCI 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

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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 \$1,534,000 at June 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

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 - SECURITIES

Equity Securities

The Company held equity securities with fair values of \$5,025,000 and \$5,006,000 at June 30, 2018 and December 31, 2017, respectively. During the three and six months ended June 30, 2018, the Company recognized unrealized gains of \$100,000 and \$25,000, respectively, on the equity securities held at June 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 six months ended June 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) June 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	\$ 96,925	\$ —	\$ (1,260)	\$95,665
U.S. Treasury notes	1,948	—	(37)	1,911
Mortgage-backed securities, residential	30,525	223	(510)	30,238
Asset backed securities	10,713	35	(82)	10,666
State and municipal	36,285	9	(681)	35,613
Corporate bonds	5,817	18	(81)	5,754
SBA pooled securities	3,366	1	(30)	3,337
Total available for sale securities	\$ 185,579	\$ 286	\$ (2,681)	\$ 183,184

Gross
Amortized Unrecognized Gross