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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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

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

TRIUMPH BANCORP, INC.

FORM 10-Q

September 30, 2018

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PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

1

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2018 and December 31, 2017

(Dollar amounts in thousands, except per share amounts)

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

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

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three and Nine Months Ended September 30, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

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

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Nine Months Ended September 30, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Preferred Stock Liquidation Preference Amount	Common Stock Shares Outstanding	Par Amount	Additional Paid-in- Capital	Treasury Stock 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 common stock, net of expenses	—	2,530,000	25	65,503	—	—	—	—	65,528
Issuance of restricted stock awards	—	45,732	—	—	—	—	—	—	—
Stock based compensation	—	—	—	1,484	—	—	—	—	1,484
Forfeiture of restricted stock awards	—	(853)	—	20	853	(20)	—	—	—
Stock option exercises, net	—	22,731	—	281	—	—	—	—	281
Warrant exercises, net	—	153,134	2	(2)	—	—	—	—	—
Purchase of treasury stock	—	(14,197)	—	—	14,197	(366)	—	—	(366)
Preferred stock converted to common stock	(88)	6,106	—	88	—	—	—	—	—
Series A preferred dividends	—	—	—	—	—	—	(273)	—	(273)
Series B preferred dividends	—	—	—	—	—	—	(307)	—	(307)
Net income	—	—	—	—	—	—	29,915	—	29,915

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Other comprehensive income	—	—	—	—	—	—	—	490	490
Balance, September 30, 2017	\$ 9,658	20,820,900	\$ 209	\$ 264,531	91,168	\$(1,760)	\$ 113,245	\$ 214	\$ 386,097
Balance, January 1, 2018	\$ 9,658	20,820,445	\$ 209	\$ 264,855	91,951	\$(1,784)	\$ 119,356	\$(596)	\$ 391,698
Issuance of common stock, net of expenses	—	5,405,000	54	191,999	—	—	—	—	192,053
Issuance of restricted stock awards	—	65,001	1	(1)	—	—	—	—	—
Stock based compensation	—	—	—	1,966	—	—	—	—	1,966
Forfeiture of restricted stock awards	—	(2,422)	—	105	2,422	(105)	—	—	—
Stock option exercises, net	—	1,366	—	(4)	—	—	—	—	(4)
Purchase of treasury stock	—	(9,629)	—	—	9,629	(396)	—	—	(396)
Series A preferred dividends	—	—	—	—	—	—	(273)	—	(273)
Series B preferred dividends	—	—	—	—	—	—	(305)	—	(305)
Net income	—	—	—	—	—	—	33,623	—	33,623
Other comprehensive income	—	—	—	—	—	—	—	(1,721)	(1,721)
Balance, September 30, 2018	\$ 9,658	26,279,761	\$ 264	\$ 458,920	104,002	\$(2,285)	\$ 152,401	\$(2,317)	\$ 616,641

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

On March 31, 2017 the Company sold its membership interests in its wholly owned subsidiary Triumph Capital Advisors, LLC (“TCA”).

See Note 2 – Business Combinations and Divestitures for details of the THF and TCA sales and their impact on our consolidated financial statements.

Basis of Presentation

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal and recurring adjustments considered necessary for a fair presentation. Transactions between the subsidiaries have been eliminated. These condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

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

Revenue from Contracts with Customers

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

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

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 September 30, 2018, the Company had contractual operating lease commitments of approximately \$21,863,000, before considering renewal options that are generally present.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

NOTE 2 – Business combinations AND DIVESTITURES

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

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

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

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

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

The Company has recognized goodwill of \$72,060,000, which was calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable net assets acquired and was allocated to the Company's Banking segment. The goodwill in these acquisitions resulted from expected synergies and expansion in the Colorado market and into the New Mexico market. The goodwill will be deducted for tax purposes. The intangible assets recognized in the transactions will be amortized utilizing an accelerated method over their ten year estimated useful lives. The initial accounting for the acquisitions has not been completed because the fair values of the assets acquired and liabilities assumed have not yet been finalized.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

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

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Interstate Capital Corporation

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

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

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

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

Consideration paid included contingent consideration with an acquisition date fair value of \$20,000,000. The contingent consideration is based on a proprietary index designed to approximate the rise and fall of transportation invoice prices subsequent to acquisition and is correlated to historical monthly movements in average invoice prices historically experienced by ICC. At the end of a 30 month earnout period, a final average index price will be calculated and the contingent consideration will be settled in cash based on the final average index price. Final

contingent consideration payout will range from \$0 to \$22,000,000 and the fair value of the associated liability will be remeasured each reporting period with changes in fair value reflected in operating results. The fair value of the contingent consideration was \$20,487,000 at September 30, 2018.

The operations of ICC are reflected in the Company's Factoring segment and included in the Company's operating results beginning June 2, 2018. The initial accounting for the acquisition has not been completed because the fair values of the assets acquired and liabilities assumed have not yet been finalized.

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Triumph Healthcare Finance

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

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

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

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

Valley Bancorp, Inc.

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

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

(Dollars in thousands)	
Assets acquired:	
Cash and cash equivalents	\$38,473
Securities	97,687
Loans	171,199
FHLB stock	315
Premises and equipment	6,238
Other real estate owned	2,282
Intangible assets	6,072

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company has recognized goodwill of \$10,523,000, which was calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable net assets acquired and was allocated to the Company's Banking segment. The goodwill in this acquisition resulted from expected synergies and expansion in the Colorado market. The goodwill will be deducted for tax purposes. The intangible assets recognized in the transaction will be amortized utilizing an accelerated method over their ten year estimated useful lives. The initial accounting for the acquisition has not been completed because the fair values of the assets acquired and liabilities assumed have not yet been finalized.

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

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

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Independent Bank Colorado Branches

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

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

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

The Company has recognized goodwill of \$5,817,000, which was calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable net assets acquired and was allocated to the Company's Banking segment. The goodwill in this acquisition resulted from expected synergies and expansion in the Colorado market. The goodwill will be deducted for tax purposes. The intangible assets recognized in the transaction will be amortized utilizing an accelerated method over their ten year estimated useful lives. The accounting for the acquisition has been finalized.

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

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

\$95,794

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Triumph Capital Advisors, LLC

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

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

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

The Company financed a portion of the consideration received with a \$10,500,000 term credit facility. Terms of the floating rate credit facility provide for quarterly principal and interest payments with an interest rate floor of 5.50%, maturing on March 31, 2023.

In addition, the Company is entitled to receive an annual earn-out payment representing 3% of TCA's future annual gross revenue, with a total maximum earn-out amount of \$2,500,000. The revenue share earn-out was considered contingent consideration which the Company recorded as an asset at its estimated fair value of \$1,623,000 on the date of sale. The fair value of the revenue share asset was \$1,725,000 at September 30, 2018. The Company received the first cash proceeds of \$174,000 from the revenue share during the nine months ended September 30, 2018.

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 - SECURITIES

Equity Securities

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

Debt Securities

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

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

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

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

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

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

Debt securities with a carrying amount of approximately \$107,249,000 and \$85,985,000 at September 30, 2018 and December 31, 2017, respectively, were pledged to secure public deposits, customer repurchase agreements, and for other purposes required or permitted by law.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Dollars in thousands) September 30, 2018	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
U.S. Government agency obligations	\$62,335	\$ (685)	\$32,439	\$ (643)	\$94,774	\$ (1,328)
U.S. Treasury notes	1,905	(47)	—	—	1,905	(47)
Mortgage-backed securities, residential	12,554	(349)	5,782	(292)	18,336	(641)
Asset backed securities	110	(2)	4,967	(32)	5,077	(34)
State and municipal	100,141	(804)	9,917	(221)	110,058	(1,025)
Corporate bonds	45,583	(144)	149	(1)	45,732	(145)
SBA pooled securities	3,920	(89)	—	—	3,920	(89)
	\$226,548	\$ (2,120)	\$53,254	\$ (1,189)	\$279,802	\$ (3,309)

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

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

(Dollars in thousands) December 31, 2017	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses

Held to maturity securities:

CLO securities	\$1,835	\$ (28) \$5,692	\$ (1,002) \$7,527	\$ (1,030)
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Management evaluates debt securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value.

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

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

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

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

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

Loans with carrying amounts of \$680,070,000 and \$596,230,000 at September 30, 2018 and December 31, 2017, respectively, were pledged to secure Federal Home Loan Bank borrowing capacity.

During the nine months ended September 30, 2017, loans with a carrying amount of \$1,965,000 were transferred to loans held for sale as the Company made the decision to sell the loans. These loans were subsequently sold resulting in proceeds of \$1,919,000 and losses on sale of loans of \$46,000, which were recorded as a reduction in other noninterest income in the consolidated statements of income. No loans were transferred to loans held for sale during the three months ended September 30, 2018 and 2017. There were no loans sold during the nine months ended September 30, 2018, other than those included in the sale of THF. See Note 2 – Business Combinations and Divestitures for details of the THF sale and its impact on our consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Allowance for Loan and Lease Losses

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

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

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

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

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	\$ 18,748	\$ 14,257	\$ (6,624)	\$ 875	\$ 27,256
(Dollars in thousands)	Beginning				Ending
Nine months ended September 30, 2017	Balance	Provision	Charge-offs	Recoveries	Balance
Commercial real estate	\$ 1,813	\$ 888	\$ (137)	\$ —	\$ 2,564
Construction, land development, land	465	1,235	(582)	7	1,125
1-4 family residential properties	253	16	(29)	42	282
Farmland	170	69	—	—	239
Commercial	8,014	4,660	(3,833)	1,307	10,148
Factored receivables	4,088	1,978	(1,102)	82	5,046
Consumer	420	813	(877)	387	743
Mortgage warehouse	182	38	—	—	220
	\$ 15,405	\$ 9,697	\$ (6,560)	\$ 1,825	\$ 20,367

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Dollars in thousands)	Loan Evaluation				ALLL Allocations			
	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
September 30, 2018								
Commercial real estate	\$7,847	\$ 887,834	\$ 10,813	\$906,494	\$581	\$ 3,461	\$ —	\$ 4,042
Construction, land development, land	221	183,862	6,837	190,920	74	1,197	—	1,271
1-4 family residential properties	2,240	191,868	644	194,752	125			