Triumph Bancorp, Inc.
Form 10-Q
July 21, 2017

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, 2017

OR

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

Commission File Number 001-36722

TRIUMPH BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

12700 Park Central Drive, Suite 1700

Dallas, Texas 75251

(Address of principal executive offices)

(214) 365-6900

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

Common Stock — $0.01 par value, 18,137,776 shares, as of July 17, 2017

TRIUMPH BANCORP, INC.

FORM 10-Q

June 30, 2017

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PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2017 and December 31, 2016

(Dollar amounts in thousands, except per share amounts)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Cash and due from banks	$ 37,341	$ 38,613
Interest bearing deposits with other banks	80,161	75,901
Total cash and cash equivalents	117,502	114,514
Securities - available for sale	227,206	275,029
Securities - held to maturity, fair value of $26,366 and $30,821, respectively	26,036	29,352
Loans, net of allowance for loan and lease losses of $19,797 and $15,405, respectively	2,275,303	2,012,219
Federal Home Loan Bank stock, at cost	14,566	8,430
Premises and equipment, net	43,957	45,460
Other real estate owned, net	10,740	6,077
Goodwill	28,810	28,810
Intangible assets, net	14,511	17,721
Bank-owned life insurance	36,852	36,509
Deferred tax assets, net	15,111	18,825
Other assets	26,090	48,121
Total assets	$ 2,836,684	$ 2,641,067
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 381,042	$ 363,351
Interest bearing	1,691,139	1,652,434
Total deposits	2,072,181	2,015,785
Customer repurchase agreements	14,959	10,490
Federal Home Loan Bank advances	340,000	230,000
Subordinated notes	48,780	48,734
Junior subordinated debentures	32,943	32,740
Other liabilities	17,354	13,973
Total liabilities	2,526,217	2,351,722
Commitments and contingencies - See Note 8 and Note 9		
Stockholders' equity - See Note 12		
Preferred Stock	9,658	9,746
Common stock	182	182
Additional paid-in-capital	198,570	197,157
Treasury stock, at cost	(1,759)	(1,374)

Retained earnings	103,658	83,910
Accumulated other comprehensive income (loss)	158	(276)
Total stockholders’ equity	310,467	289,345
Total liabilities and stockholders' equity	$ 2,836,684	$ 2,641,067

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, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest and dividend income:				
Loans, including fees	$30,663	$18,547	$55,848	$34,635
Factored receivables, including fees	10,812	8,639	19,979	16,461
Securities	1,738	958	3,349	1,723
FHLB stock	36	13	78	23
Cash deposits	289	197	616	405
Total interest income	43,538	28,354	79,870	53,247
Interest expense:				
Deposits	3,057	2,020	5,926	4,013
Subordinated notes	836	—	1,671	—
Junior subordinated debentures	475	312	940	614
Other borrowings	613	115	957	224
Total interest expense	4,981	2,447	9,494	4,851
Net interest income	38,557	25,907	70,376	48,396
Provision for loan losses	1,447	1,939	9,125	1,428
Net interest income after provision for loan losses	37,110	23,968	61,251	46,968
Noninterest income:				
Service charges on deposits	977	695	1,957	1,354
Card income	917	577	1,744	1,123
Net OREO gains (losses) and valuation adjustments	(112)	(1,204)	(101)	(1,215)
Net gains (losses) on sale of securities	—	—	—	5
Net gains on sale of loans	—	4	—	16
Fee income	637	504	1,220	1,038
Asset management fees	—	1,605	1,717	3,234
Gain on sale of subsidiary	—	—	20,860	—
Other	2,783	1,487	5,090	3,094
Total noninterest income	5,202	3,668	32,487	8,649
Noninterest expense:				
Salaries and employee benefits	16,012	12,229	37,970	24,481
Occupancy, furniture and equipment	2,348	1,534	4,707	3,016
FDIC insurance and other regulatory assessments	270	281	496	505
Professional fees	1,238	1,101	3,206	2,174

Amortization of intangible assets	911	717	2,022	1,694
Advertising and promotion	911	628	1,849	1,147
Communications and technology	2,233	1,263	4,407	2,695
Other	3,398	2,578	7,501	4,697
Total noninterest expense	27,321	20,331	62,158	40,409
Net income before income tax	14,991	7,305	31,580	15,208
Income tax expense	5,331	2,679	11,447	5,576
Net income	9,660	4,626	20,133	9,632
Dividends on preferred stock	(193)	(195)	(385)	(389)
Net income available to common stockholders	$9,467	$4,431	$19,748	$9,243
Earnings per common share				
Basic	$0.53	$0.25	$1.10	$0.52
Diluted	$0.51	$0.25	$1.07	$0.51

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, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$9,660	$4,626	$20,133	$9,632
Other comprehensive income:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period	357	536	691	1,993
Reclassification of amount realized through sale of securities	—	—	—	(5)
Tax effect	(133)	(199)	(257)	(740)
Total other comprehensive income (loss)	224	337	434	1,248
Comprehensive income	$9,884	$4,963	$20,567	$10,880

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, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Preferred Stock Liquidation Preference Amount	Common Stock Shares Outstanding	Common Stock Par Amount	Additional Paid-in-Capital	Treasury Stock Shares Outstanding	Treasury Stock Cost	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance, January 1, 2016	$ 9,746	18,018,200	$ 181	$ 194,297	34,523	$ (560)	$ 64,097	$ 277	$ 268,038
Issuance of restricted stock awards	—	101,105	1	(1)	—	—	—	—	—
Stock based compensation	—	—	—	1,279	—	—	—	—	1,279
Forfeiture of restricted stock awards	—	(6,759)	—	101	6,759	(101)	—	—	—
Excess tax benefit on restricted stock vested	—	—	—	35	—	—	—	—	35
Purchase of treasury stock		(5,053)	—	—	5,053	(80)		—	(80)
Series A Preferred dividends	—	—	—	—	—	—	(182)	—	(182)
Series B Preferred dividends	—	—	—	—	—	—	(207)	—	(207)
Net income	—	—	—	—	—	—	9,632	—	9,632
Other comprehensive income	—	—	—	—	—	—	—	1,248	1,248
Balance, June 30, 2016	$ 9,746	18,107,493	$ 182	$ 195,711	46,335	$ (741)	$ 73,340	$ 1,525	$ 279,763
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	—	40,541	—	—	—	—	—	—	—

awards									
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

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, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$20,133	$9,632
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,925	1,162
Net accretion on loans and deposits	(3,965)	(3,453)
Amortization of subordinated notes issuance costs	46	—
Amortization of junior subordinated debentures	203	136
Net amortization on securities	837	326
Amortization of intangible assets	2,022	1,694
Deferred taxes	3,457	(135)
Provision for loan losses	9,125	1,428
Stock based compensation	1,025	1,279
Origination of loans held for sale	—	(891)
Proceeds from sale of loans originated for sale	—	2,248
Net (gains) losses on sale of securities	—	(5)
Net (gain) loss on loans transferred to loans held for sale	46	81
Net gains on sale of loans	—	(16)
Net OREO (gains) losses and valuation adjustments	101	1,215
Gain on sale of subsidiary	(20,860)	—
Income from CLO warehouse investments	(1,954)	(1,758)
(Increase) decrease in other assets	5,010	944
Increase (decrease) in other liabilities	3,296	(801)
Net cash provided by (used in) operating activities	20,447	13,086
Cash flows from investing activities:		
Purchases of securities available for sale	(5,042)	(3,264)
Proceeds from sales of securities available for sale	—	4,345
Proceeds from maturities, calls, and pay downs of securities available for sale	51,819	3,872
Purchases of securities held to maturity	(5,092)	(27,409)
Proceeds from maturities, calls, and pay downs of securities held to maturity	9,308	—
Purchases of loans (shared national credits)	—	(995)
Proceeds from sale of loans	1,919	4,038
Net change in loans	(265,788)	(119,071)
Purchases of premises and equipment, net	(699)	(779)
Net proceeds from sale of OREO	1,588	528

Net cash paid for CLO warehouse investments	—	(10,000)
Net proceeds from CLO warehouse investments	20,000	14,000
(Purchases) redemptions of FHLB stock, net	(6,136)	(2,550)
Proceeds from sale of subsidiary, net	10,269	—
Net cash provided by (used in) investing activities	(187,854)	(137,285)
Cash flows from financing activities:		
Net increase in deposits	56,396	26,323
Increase (decrease) in customer repurchase agreements	4,469	4,318
Increase (decrease) in Federal Home Loan Bank advances	110,000	50,500
Stock option exercises	281	—
Purchase of treasury stock	(366)	(80)
Dividends on preferred stock	(385)	(389)
Net cash provided by (used in) financing activities	170,395	80,672
Net increase (decrease) in cash and cash equivalents	2,988	(43,527)
Cash and cash equivalents at beginning of period	114,514	105,277
Cash and cash equivalents at end of period	$117,502	$61,750

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, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Supplemental cash flow information:		
Interest paid	$8,996	$4,717
Income taxes paid, net	$4,655	$6,018
Supplemental noncash disclosures:		
Loans transferred to OREO	$6,079	$425
Premises transferred to OREO	$273	$2,215
Loans transferred to loans held for sale	$1,919	$4,038
Consideration received from sale of subsidiary	$12,123	$—

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

TBK Bank also does business under the following names: (i) Triumph Community Bank (“TCB”) with respect to its community banking business in certain markets; (ii) Triumph Commercial Finance (“TCF”) with respect to its asset based lending, equipment lending and general factoring commercial finance products; (iii) Triumph Healthcare Finance (“THF”) with respect to its healthcare asset based lending business; and (iv) Triumph Premium Finance (“TPF”) with respect to its insurance premium financing business.

On March 31, 2017 the Company sold its membership interests in its wholly owned subsidiary Triumph Capital Advisors, LLC (“TCA”). See Note 2 – Business Combinations and Divestitures for details of the TCA sale and its impact on the Company’s 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, 2016. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The Company has four reportable segments consisting of Banking, Factoring, Asset Management, and Corporate. The Company’s Chief Executive Officer uses segment results to make operating and strategic decisions. On March 31, 2017 the Company sold its membership interests in TCA, which comprised the entirety of the Asset Management segment’s operations. See Note 2 – Business Combinations and Divestitures for details of the TCA sale and its impact on the Company’s consolidated financial statements.

Adoption of New Accounting Standards

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). The FASB issued this ASU to improve the accounting for share-based payments. ASU 2016-09 simplifies several aspects of the accounting for share-based payment award transactions, including: the presentation of income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, and calculation of diluted earnings per share. The new standard was effective for the Company on January 1, 2017. Adoption of ASU 2016-09 did not have a material impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, “Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities” (“ASU 2017-08”). These amendments shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. As permitted by the amendment, the Company elected to early adopt the provisions of this ASU as of January 1, 2017. Adoption of ASU 2017-08 did not have a material impact on the Company’s consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Newly Issued, But Not Yet Effective Accounting Standards

In May 2014, the FASB issued 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 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2018. Adoption of the ASU is not expected to have a significant impact on the Company’s consolidated financial statements and related disclosures. 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 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, is not expected to change significantly from current practice. The standard permits the use of either the full retrospective or modified retrospective transition method. The Company is currently planning to use the modified retrospective transition method which requires application of ASU 2014-09 to uncompleted contracts at the date of adoption. Periods prior to the date of adoption are not retrospectively revised, but a cumulative effect of adoption is recognized for the impact of the ASU on uncompleted contracts at the date of adoption.

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 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on our consolidated financial statements and related disclosures.

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, 2017, the Company had contractual operating lease commitments of approximately $6,937,000, before considering renewal options that are generally present.

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 is currently assessing the impact that the adoption of this standard will have on the financial condition and results of operations of the Company.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 – Business combinations AND DIVESTITURES

Independent Bank Colorado Branches

On June 23, 2017, the Company entered into an agreement to acquire 9 branch locations in Colorado from Independent Bank Group, Inc.'s banking subsidiary Independent Bank. TBK Bank will purchase approximately $100,000,000 in loans and assume approximately $168,000,000 in deposits associated with the branches for an estimated aggregate deposit premium of $7,000,000 or 4.17%. The actual premium will be based on a 30 day average of deposit balances at the time the transaction closes. The transaction is expected to close during the fourth quarter of 2017 and is subject to certain closing conditions, including receipt of regulatory approval and other customary closing conditions.

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	21,260
Transaction costs	400
Gain on sale of subsidiary, net of transaction costs	$20,860

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

In addition, the Company is entitled to receive an annual earn-out payment representing 3% of TCA's future annual gross revenue, with a total maximum earn-out amount of $2,500,000. The revenue share earn-out 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 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.

Southern Transportation Insurance Agency

On September 1, 2016, the Company acquired Southern Transportation Insurance Agency, Ltd. in an all-cash transaction for $2,150,000. The purpose of the acquisition was to expand the Company’s product offerings for clients in the transportation industry. The Company recognized an intangible asset of $1,580,000 and goodwill of $570,000, which were allocated to the Company’s Banking segment. Goodwill resulted from expected enhanced product offerings and is being amortized for tax purposes.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

ColoEast Bankshares, Inc.

On August 1, 2016, the Company acquired 100% of the outstanding common stock of ColoEast Bankshares, Inc. (“ColoEast”) and its community banking subsidiary, Colorado East Bank & Trust, in an all-cash transaction for $70,000,000. The Company also assumed $10,500,000 of ColoEast preferred stock issued in conjunction with the U.S. Government’s Treasury Asset Relief Program (“TARP Preferred Stock”). Colorado East Bank & Trust, which was merged into TBK Bank upon closing, offered personal checking, savings, CD, money market, HSA, IRA, NOW and business accounts, as well as commercial and consumer loans from 18 branches and one loan production office located throughout Colorado and far western Kansas. The acquisition expanded the Company’s market into Colorado and Kansas and further diversified the Company’s loan, customer, and deposit base.

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

(Dollars in thousands)	Initial Values Recorded at Acquisition Date	Measurement Period Adjustments	Adjusted Values
Assets acquired:			
Cash and cash equivalents	$ 57,671	$ —	$ 57,671
Securities	161,693	—	161,693
Loans	460,775	—	460,775
FHLB and Federal Reserve Bank stock	550	—	550
Premises and equipment	23,940	—	23,940
Other real estate owned	3,105	(143)	2,962
Intangible assets	7,238	—	7,238
Bank-owned life insurance	6,400	—	6,400
Deferred income taxes	4,511	(70)	4,441
Other assets	10,022	—	10,022
	735,905	(213)	735,692
Liabilities assumed:			
Deposits	652,952	—	652,952
Junior subordinated debentures	7,728	—	7,728
Other liabilities	6,784	—	6,784
	667,464	—	667,464
Fair value of net assets acquired	68,441	(213)	68,228
Cash paid	70,000	—	70,000
TARP Preferred Stock assumed	10,500	—	10,500
Consideration transferred	80,500	—	80,500
Goodwill	$ 12,059	$ 213	$ 12,272

The consideration transferred was comprised of a combination of cash and the assumption of ColoEast's TARP Preferred Stock. The Company recognized goodwill of $12,272,000, which included measurement period adjustments related to the final valuation of other real estate owned acquired in the transaction and the finalization of income taxes associated with the transaction. Goodwill was calculated as the excess of both the consideration exchanged and 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 into the Colorado and Kansas markets. The goodwill is not being amortized for tax purposes.

The TARP Preferred Stock assumed in the acquisition was redeemed by the Company at par on August 31, 2016.

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In connection with the ColoEast 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 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 on acquired loans at the acquisition date:

(Dollars in thousands)	Loans, Excluding PCI Loans	PCI Loans	Total Loans
Commercial real estate	$ 86,569	$ 10,907	$ 97,476
Construction, land development, land	58,718	2,933	61,651
1-4 family residential properties	36,412	91	36,503
Farmland	100,977	233	101,210
Commercial	151,605	5,129	156,734
Factored receivables	694	—	694
Consumer	6,507	—	6,507
	$ 441,482	$ 19,293	$ 460,775

The operations of ColoEast are included in the Company's operating results beginning August 1, 2016.

Expenses related to the acquisition, including professional fees and integration costs, totaling $1,618,000 were recorded in noninterest expense in the consolidated statements of income during the three months ended September 30, 2016.

NOTE 3 - SECURITIES

Securities have been classified in the financial statements as available for sale or held to maturity. The amortized cost of securities and their approximate fair values at June 30, 2017 and December 31, 2016 are as follows:

(Dollars in thousands) June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	$ 133,704	$ 564	$ (463)	$ 133,805
U.S. Treasury notes	4,830	43	—	4,873
Mortgage-backed securities, residential	22,233	389	(115)	22,507
Asset backed securities	12,889	21	(111)	12,799
State and municipal	25,361	23	(233)	25,151

Corporate bonds	25,793	114	(3)	25,904
SBA pooled securities	144	—	—	144
Mutual fund	2,000	23	—	2,023
Total available for sale securities	$ 226,954	$ 1,177	$ (925)	$ 227,206

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 26,036	$ 948	$ (618)	$ 26,366

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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(Dollars in thousands) December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	$ 180,945	$ 640	$ (643)	$ 180,942
Mortgage-backed securities, residential	24,710	453	(173)	24,990
Asset backed securities	13,031	30	(159)	12,902
State and municipal	27,339	6	(708)	26,637
Corporate bonds	27,287	106	(3)	27,390
SBA pooled securities	156	1	—	157
Mutual fund	2,000	11	—	2,011
Total available for sale securities	$ 275,468	$ 1,247	$ (1,686)	$ 275,029

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 29,352	$ 1,527	$ (58)	$ 30,821

The amortized cost and estimated fair value of securities at June 30, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale Securities		Held to Maturity Securities	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 56,482	$ 56,454	$ —	$ —
Due from one year to five years	111,026	111,240	—	—
Due from five years to ten years	6,859	6,790	12,875	13,513
Due after ten years	15,321	15,249	13,161	12,853
	189,688	189,733	26,036	26,366
Mortgage-backed securities, residential	22,233	22,507	—	—
Asset backed securities	12,889	12,799	—	—
SBA pooled securities	144	144	—	—
Mutual fund	2,000	2,023	—	—

	$226,954	$227,206	$26,036	$26,366

Proceeds from sales of securities and the associated gross gains and losses for the three and six months ended June 30, 2017 and 2016 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Proceeds	$ —	$ —	$ —	$ 4,345
Gross gains	—	—	—	5
Gross losses	—	—	—	—

Securities with a carrying amount of approximately $188,671,000 and $194,571,000 at June 30, 2017 and December 31, 2016, respectively, were pledged to secure public deposits, customer repurchase agreements, and for other purposes required or permitted by law.

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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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(Unaudited)

Information pertaining to securities with gross unrealized and unrecognized losses at June 30, 2017 and December 31, 2016, 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) June 30, 2017	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
Available for sale securities:						
U.S. Government agency obligations	$58,439	$ (463)	$—	$ —	$58,439	$ (463)
U.S. Treasury notes	—	—	—	—	—	—
Mortgage-backed securities, residential	6,472	(115)	—	—	6,472	(115)
Asset backed securities	4,882	(75)	4,922	(36)	9,804	(111)
State and municipal	22,700	(233)	—	—	22,700	(233)
Corporate bonds	372	(3)	—	—	372	(3)
SBA pooled securities	—	—	—	—	—	—
Mutual fund	—	—	—	—	—	—
	$92,865	$ (889)	$4,922	$ (36)	$97,787	$ (925)

(Dollars in thousands) June 30, 2017	Less than 12 Months Fair Value	Less than 12 Months Unrecognized Losses	12 Months or More Fair Value	12 Months or More Unrecognized Losses	Total Fair Value	Total Unrecognized Losses
Held to maturity securities:						
CLO securities	$7,846	$ (618)	$—	$ —	$7,846	$ (618)

(Dollars in thousands) December 31, 2016	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Government agency obligations	$95,362	$ (643)	$—	$ —	$95,362	$ (643)
Mortgage-backed securities, residential	6,594	(173)	—	—	6,594	(173)
Asset backed securities	—	—	7,946	(159)	7,946	(159)
State and municipal	25,771	(708)	—	—	25,771	(708)
Corporate bonds	372	(3)	—	—	372	(3)
SBA pooled securities	—	—	—	—	—	—
Mutual fund	—	—	—	—	—	—
	$128,099	$ (1,527)	$7,946	$ (159)	$136,045	$ (1,686)

	Less than 12 Months		12 Months or More		Total	

(Dollars in thousands) December 31, 2016	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Held to maturity securities:						
CLO securities	$3,323	$ (58)	$—	$ —	$3,323	$ (58)

Management evaluates 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.

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At June 30, 2017, the Company had 73 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 June 30, 2017, management believes that the unrealized losses detailed in the previous table are temporary and no other than temporary impairment loss has been recognized in the Company's consolidated statements of income.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents the recorded investment and unpaid principal for loans at June 30, 2017 and December 31, 2016:

	June 30, 2017			December 31, 2016		
(Dollars in thousands)	Recorded Investment	Unpaid Principal	Difference	Recorded Investment	Unpaid Principal	Difference
Commercial real estate	$541,217	$546,617	$(5,400)	$442,237	$447,926	$(5,689)
Construction, land development, land	120,253	122,119	(1,866)	109,812	113,211	(3,399)
1-4 family residential properties	101,833	103,366	(1,533)	104,974	106,852	(1,878)
Farmland	136,258	137,307	(1,049)	141,615	142,673	(1,058)
Commercial	842,715	846,091	(3,376)	778,643	783,349	(4,706)
Factored receivables	293,633	295,246	(1,613)	238,198	239,432	(1,234)
Consumer	29,497	29,512	(15)	29,764	29,782	(18)
Mortgage warehouse	229,694	229,694	—	182,381	182,381	—
Total	2,295,100	$2,309,952	$(14,852)	2,027,624	$2,045,606	$(17,982)
Allowance for loan and lease losses	(19,797)			(15,405)		
	$2,275,303			$2,012,219		

The difference between the recorded investment and the unpaid principal balance is primarily associated with (1) premiums and discounts associated with acquisition date fair value adjustments on acquired loans (both PCI and non-PCI) totaling $11,688,000 and $15,210,000 at June 30, 2017 and December 31, 2016, respectively, and (2) net deferred origination and factoring fees totaling $3,164,000 and $2,772,000 at June 30, 2017 and December 31, 2016, respectively.

At June 30, 2017 and December 31, 2016, the Company had $27,751,000 and $23,597,000, 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 $486,269,000 and $497,573,000 at June 30, 2017 and December 31, 2016, respectively, were pledged to secure Federal Home Loan Bank borrowing capacity.

During the six months ended June 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 other noninterest income in the consolidated statements of income for the six months ended June 30, 2017. No loans were transferred to loans held for sale during the three months ended June 30, 2017. During the three and six months ended June 30, 2016, loans with a carrying amount of $1,238,000 and $4,119,000, respectively, were transferred to loans held for sale. These loans were subsequently sold resulting in proceeds of $1,233,000 and $4,038,000, respectively, and losses on sale of loans of $5,000 and $81,000, respectively.

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Allowance for Loan and Lease Losses

The activity in the allowance for loan and lease losses ("ALLL") during the three and six months ended June 30, 2017 and 2016 is as follows:

(Dollars in thousands) Three months ended June 30, 2017	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 2,243	$ 263	$ —	$ —	$ 2,506
Construction, land development, land	566	512	(163)	—	915
1-4 family residential properties	160	(25)	—	14	149
Farmland	214	47	—	—	261
Commercial	11,177	(504)	(226)	156	10,603
Factored receivables	4,064	814	(386)	15	4,507
Consumer	547	233	(308)	155	627
Mortgage warehouse	122	107	—	—	229
	$ 19,093	$ 1,447	$ (1,083)	$ 340	$ 19,797

(Dollars in thousands) Three months ended June 30, 2016	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 1,619	$ 161	$ (1)	$ 13	$ 1,792
Construction, land development, land	198	(17)	—	—	181
1-4 family residential properties	285	(50)	(47)	71	259
Farmland	133	10	—	—	143
Commercial	5,331	1,134	(169)	401	6,697
Factored receivables	4,110	524	(450)	20	4,204
Consumer	222	169	(112)	14	293
Mortgage warehouse	195	8	—	—	203
	$ 12,093	$ 1,939	$ (779)	$ 519	$ 13,772

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(Dollars in thousands) Six months ended June 30, 2017	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 1,813	$ 830	$ (137)	$ —	$ 2,506
Construction, land development, land	465	1,025	(582)	7	915
1-4 family residential properties	253	(95)	(28)	19	149
Farmland	170	91	—	—	261
Commercial	8,014	5,289	(3,078)	378	10,603
Factored receivables	4,088	1,333	(966)	52	4,507
Consumer	420	605	(607)	209	627
Mortgage warehouse	182	47	—	—	229
	$ 15,405	$ 9,125	$ (5,398)	$ 665	$ 19,797

(Dollars in thousands) Six months ended June 30, 2016	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 1,489	$ 290	$ (1)	$ 14	$ 1,792
Construction, land development, land	367	(186)	—	—	181
1-4 family residential properties	274	(28)	(63)	76	259
Farmland	134	9	—	—	143
Commercial	5,276	1,159	(169)	431	6,697
Factored receivables	4,509	84	(458)	69	4,204
Consumer	216	199	(155)	33	293
Mortgage warehouse	302	(99)	—	—	203
	$ 12,567	$ 1,428	$ (846)	$ 623	$ 13,772

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			
June 30, 2017	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
Commercial real estate	$ 862	$ 529,803	$ 10,552	$ 541,217	$ 126	$ 2,380	$ —	$ 2,506
Construction, land development, land	134	117,220	2,899	120,253	—	915	—	915
1-4 family residential properties	1,710	98,734	1,389	101,833	—	149	—	149
Farmland	3,480	132,537	241	136,258	—	261	—	261
Commercial	22,886	818,667	1,162	842,715	2,387	7,931	285	10,603
Factored receivables	3,295	290,338	—	293,633	1,550	2,957	—	4,507
Consumer	110	29,387	—	29,497	—	627	—	627
Mortgage warehouse	—	229,694	—	229,694	—	229	—	229
	$ 32,477	$ 2,246,380	$ 16,243	$ 2,295,100	$ 4,063	$ 15,449	$ 285	$ 19,797

(Dollars in thousands)	Loan Evaluation				ALLL Allocations			
December 31, 2016	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
Commercial real estate	$1,456	$427,918	$12,863	$442,237	$100	$ 1,358	$355	$ 1,813
Construction, land development, land	362	105,493	3,957	109,812	25	440	—	465
1-4 family residential properties	1,095	101,551	2,328	104,974	1	252	—	253
Farmland	1,333	140,045	237	141,615	—	170	—	170
Commercial	33,033	738,088	7,522	778,643	2,101	5,913	—	8,014
Factored receivables	3,176	235,022	—	238,198	1,546	2,542	—	4,088
Consumer	73	29,691	—	29,764	—	420	—	420
Mortgage warehouse	—	182,381	—	182,381	—	182	—	182
	$40,528	$1,960,189	$26,907	$2,027,624	$3,773	$ 11,277	$355	$ 15,405

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The following is a summary of information pertaining to impaired loans. PCI loans that have not deteriorated subsequent to acquisition are not considered impaired and therefore do not require an allowance and are excluded from these tables.

	Impaired Loans and Purchased Credit				
	Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance	
(Dollars in thousands) June 30, 2017	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$ 169	$ 170	$ 126	$ 693	$ 726
Construction, land development, land	—	—	—	134	134
1-4 family residential properties	—	—	—	1,710	1,834
Farmland	—	—	—	3,480	3,563
Commercial	13,990	14,083	2,387	8,896	8,991
Factored receivables	3,295	3,295	1,550	—	—
Consumer	—	—	—	110	109
Mortgage warehouse	—	—	—	—	—
PCI	285	1,114	285	—	—
	$ 17,739	$ 18,662	$ 4,348	$ 15,023	$ 15,357

	Impaired Loans and Purchased Credit				
	Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance	
(Dollars in thousands) December 31, 2016	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$ 517	$ 517	$ 100	$ 939	$ 1,011
Construction, land development, land	277	275	25	85	86
1-4 family residential properties	8	14	1	1,087	1,215
Farmland	—	—	—	1,333	1,364
Commercial	15,022	15,018	2,101	18,011	18,096
Factored receivables	3,176	3,176	1,546	—	—
Consumer	—	—	—	73	73
Mortgage warehouse	—	—	—	—	—
PCI	525	525	355	—	—
	$ 19,525	$ 19,525	$ 4,128	$ 21,528	$ 21,845

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The following table presents average impaired loans and interest recognized on impaired loans for the three and six months ended June 30, 2017 and 2016:

(Dollars in thousands)	Three Months Ended June 30, 2017 Average Impaired Loans	Three Months Ended June 30, 2017 Interest Recognized	Three Months Ended June 30, 2016 Average Impaired Loans	Three Months Ended June 30, 2016 Interest Recognized
Commercial real estate	$793	$ 1	$702	$ —
Construction, land development, land	275	—	138	—
1-4 family residential properties	1,488	6	779	—
Farmland	3,200	9	—	—
Commercial	24,023	109	12,769	73
Factored receivables	3,512	—	4,074	—
Consumer	122	—	35	—
Mortgage warehouse	—	—	—	—
PCI	1,494	—	1,432	—
	$34,907	$ 125	$19,929	$ 73

(Dollars in thousands)	Six Months Ended June 30, 2017 Average Impaired Loans	Six Months Ended June 30, 2017 Interest Recognized	Six Months Ended June 30, 2016 Average Impaired Loans	Six Months Ended June 30, 2016 Interest Recognized
Commercial real estate	$1,159	$ 1	$706	$ —
Construction, land development, land	248	—	138	2
1-4 family residential properties	1,402	7	775	4
Farmland	2,406	18	—	—
Commercial	27,960	232	10,593	247
Factored receivables	3,235	—	3,309	—
Consumer	89	—	16	—
Mortgage warehouse	—	—	—	—
PCI	405	—	983	—
	$36,904	$ 258	$16,520	$ 253

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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Past Due and Nonaccrual Loans

The following is a summary of contractually past due and nonaccrual loans at June 30, 2017 and December 31, 2016:

(Dollars in thousands) June 30, 2017	Past Due 30-89 Days Still Accruing	Past Due 90 Days or More Still Accruing	Nonaccrual	Total
Commercial real estate	$ 1,828	$ —	$ 862	$ 2,690
Construction, land development, land	543	—	134	677
1-4 family residential properties	1,383	—	1,695	3,078
Farmland	3,553	—	2,688	6,241
Commercial	7,044	65	17,892	25,001
Factored receivables	14,477	1,844	—	16,321
Consumer	747	2	110	859
Mortgage warehouse	—	—	—	—
PCI	192	122	2,392	2,706
	$ 29,767	$ 2,033	$ 25,773	$ 57,573

(Dollars in thousands) December 31, 2016	Past Due 30-89 Days Still Accruing	Past Due 90 Days or More Still Accruing	Nonaccrual	Total
Commercial real estate	$ 699	$ 144	$ 1,163	$ 2,006
Construction, land development, land	619	—	362	981
1-4 family residential properties	956	—	1,039	1,995
Farmland	3,583	141	541	4,265
Commercial	11,060	1,077	26,619	38,756
Factored receivables	11,921	2,153	—	14,074
Consumer	667	2	73	742
Mortgage warehouse	—	—	—	—
PCI	2,020	104	8,233	10,357
	$ 31,525	$ 3,621	$ 38,030	$ 73,176

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

(Dollars in thousands)	June 30, 2017	December 31, 2016
Nonaccrual loans[1]	$25,773	$ 38,030
Factored receivables greater than 90 days past due	1,844	2,153
Troubled debt restructurings accruing interest	3,529	5,123
	$31,146	$ 45,306

[1] Includes troubled debt restructurings of $8,557,000 and $13,263,000 at June 30, 2017 and December 31, 2016, respectively.

Credit Quality Information

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current collateral and financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes every loan and is performed on a regular basis. Large groups of smaller balance homogeneous loans, such as consumer loans, are analyzed primarily based on payment status. The Company uses the following definitions for risk ratings:

Pass:

Loans classified as pass are loans with low to average risk and not otherwise classified as substandard or doubtful.

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Substandard:

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

Doubtful:

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

PCI:

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

As of June 30, 2017 and December 31, 2016, based on the most recent analysis performed, the risk category of loans is as follows:

(Dollars in thousands) June 30, 2017	Pass	Substandard	Doubtful	PCI	Total
Commercial real estate	$528,842	$ 1,823	$ —	$10,552	$541,217
Construction, land development, land	117,220	134	—	2,899	120,253
1-4 family residential	98,642	1,802	—	1,389	101,833
Farmland	128,067	7,950	—	241	136,258
Commercial	802,068	39,485	—	1,162	842,715
Factored receivables	291,367	795	1,471	—	293,633
Consumer	29,386	111	—	—	29,497
Mortgage warehouse	229,694	—	—	—	229,694
	$2,225,286	$ 52,100	$ 1,471	$16,243	$2,295,100

(Dollars in thousands) December 31, 2016	Pass	Substandard	Doubtful	PCI	Total
Commercial real estate	$422,423	$ 6,951	$ —	$12,863	$442,237
Construction, land development, land	105,493	362	—	3,957	109,812
1-4 family residential	101,339	1,307	—	2,328	104,974
Farmland	136,474	4,904	—	237	141,615
Commercial	729,634	41,487	—	7,522	778,643

Factored receivables	236,084	1,029	1,085	—	238,198
Consumer	29,688	76	—	—	29,764
Mortgage warehouse	182,381	—	—	—	182,381
	$1,943,516	$ 56,116	$ 1,085	$26,907	$2,027,624

Troubled Debt Restructurings

The Company had a recorded investment in troubled debt restructurings of $12,086,000 and $18,386,000 as of June 30, 2017 and December 31, 2016, respectively. The Company had allocated specific allowances for these loans of $435,000 and $1,911,000 at June 30, 2017 and December 31, 2016, respectively, and had not committed to lend additional amounts. Troubled debt restructurings are the result of extending amortization periods, reducing contractual interest rates, or a combination thereof. The Company did not grant principal reductions on any restructured loans.

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The following table presents loans modified as troubled debt restructurings that occurred during the six months ended June 30, 2017 and 2016:

(Dollars in thousands) June 30, 2017	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	4	$ 186	$ 186

(Dollars in thousands) June 30, 2016	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	16	$ 5,730	$ 5,730

During the six months ended June 30, 2017, the Company had three loans modified as troubled debt restructurings with a recorded investment of $2,983,000 for which there were payment defaults within twelve months following the modification. The full recorded investment in one of these loans of $2,702,000 was charged off during the period. During the six months ended June 30, 2016, there were no defaults on any loans that were modified as troubled debt restructurings during the preceding twelve months. Default is determined at 90 or more days past due.

Purchased Credit Impaired Loans

The Company has loans that were acquired, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The outstanding contractually required principal and interest and the carrying amount of these loans included in the balance sheet amounts of loans at June 30, 2017 and December 31, 2016, are as follows:

	June 30, 2017	December 31, 2016
Contractually required principal and interest:		
Real estate loans	$ 18,836	$ 25,013
Commercial loans	2,249	9,703
Outstanding contractually required principal and interest	$ 21,085	$ 34,716
Gross carrying amount included in loans receivable	$ 16,243	$ 26,907

The changes in accretable yield during the three and six months ended June 30, 2017 and 2016 in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are as follows:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Accretable yield, beginning balance	$3,432	$2,064	$4,261	$2,593
Additions	—	—	—	—
Accretion	(2,234)	(1,518)	(2,706)	(2,034)
Reclassification from nonaccretable to accretable yield	1,928	646	2,011	646
Disposals	—	—	(440)	(13)
Accretable yield, ending balance	$3,126	$1,192	$3,126	$1,192

NOTE 5 - GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Goodwill	$28,810	$ 28,810

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	June 30, 2017			December 31, 2016		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	$21,825	$ (10,027)	$ 11,798	$21,825	$ (8,423)	$ 13,402
Other intangible assets	3,793	(1,080)	2,713	6,006	(1,687)	4,319
	$25,618	$ (11,107)	$ 14,511	$27,831	$ (10,110)	$ 17,721

The changes in goodwill and intangible assets during the three and six months ended June 30, 2017 and 2016 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Beginning balance	$44,232	$26,877	$46,531	$27,854
Acquired intangibles	—	—	151	—
Divestiture	—	—	(1,339)	—
Amortization of intangibles	(911)	(717)	(2,022)	(1,694)
Ending balance	$43,321	$26,160	$43,321	$26,160

NOTE 6 – Variable Interest Entities

Collateralized Loan Obligation Funds – Closed

The Company, through its subsidiary TCA, acted as the asset manager or provided certain middle and back office staffing and services to the asset manager of various CLO funds. TCA earned asset management fees in accordance with the terms of its asset management or staffing and services agreements associated with the CLO funds. TCA earned asset management fees totaling $0 and $1,717,000 for the three and six months ended June 30, 2017, respectively, and $1,605,000 and $3,234,000 for the three and six months ended June 30, 2016, respectively. On March 31, 2017, the Company sold its membership interests in TCA as discussed in Note 2 – Business Combinations and Divestitures. As a result of the TCA sale, as of March 31, 2017 the Company no longer acts as asset manager or staffing and services provider for any CLO funds.

The Company holds investments in the subordinated notes of the following closed CLO funds:

(Dollars in thousands)	Offering Date	Offering Amount
Trinitas CLO IV, LTD (Trinitas IV)	June 2, 2016	$406,650
Trinitas CLO V, LTD (Trinitas V)	September 22, 2016	$409,000
Trinitas CLO VI, LTD (Trinitas VI)	June 20, 2017	$717,100

The carrying amounts of the Company's investments in the subordinated notes of the CLO funds totaled $8,464,000 and $3,380,000 at June 30, 2017 and December 31, 2016, respectively, and are classified as held to maturity securities within the Company's consolidated balance sheets.

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

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Collateralized Loan Obligation Fund – Warehouse Phase

On June 17, 2016, Trinitas CLO VI, Ltd. ("Trinitas VI") was formed to be the issuer of a CLO offering. At December 31, 2016, the Company held an investment of $21,217,000 in the subordinated debt of the CLO fund during its warehouse phase, which was classified as other assets within the Company's consolidated balance sheet. The CLO fund's warehouse phase was closed and the final CLO issued on June 20, 2017, at which time the Company's investment was repaid. The Company did not hold an investment in any CLO warehouse entities at June 30, 2017.

Income from the Company's investment in CLO warehouse entities totaled $990,000 and $1,954,000 during the three and six months ended June 30, 2017, respectively, and $774,000 and $1,758,000 during the three and six months ended June 30, 2016, respectively, and is included in other noninterest income within the Company's consolidated statements of income.

The Company performed a consolidation analysis of Trinitas VI during the warehouse phase and concluded that Trinitas VI was a variable interest entity and that the Company held a variable interest in the entity that could potentially be significant to the entity in the form of its investment in the subordinated notes of the entity. However, the Company also concluded that the Company did not have the power to direct the activities that most significantly impacted the entity's economic performance. As a result, the Company was not the primary beneficiary and therefore was not required to consolidate the assets, liabilities, equity, or operations of the entity in the Company's financial statements.

NOTE 7 - Deposits

Deposits at June 30, 2017 and December 31, 2016 are summarized as follows:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Noninterest bearing demand	$381,042	$363,351
Interest bearing demand	350,966	340,362
Individual retirement accounts	99,694	103,022
Money market	205,243	213,253
Savings	173,137	171,354
Certificates of deposit	777,459	756,351
Brokered deposits	84,640	68,092
Total Deposits	$2,072,181	$2,015,785

At June 30, 2017, scheduled maturities of certificates of deposits, individual retirement accounts and brokered deposits are as follows:

(Dollars in thousands)	June 30, 2017
Within one year	$683,047
After one but within two years	190,804
After two but within three years	43,694
After three but within four years	20,661
After four but within five years	23,581
After five years	6
Total	$961,793

Time deposits, including individual retirement accounts, certificates of deposit, and brokered deposits, with individual balances of $250,000 and greater totaled $163,685,000 and $149,258,000 at June 30, 2017 and December 31, 2016, respectively.

NOTE 8 - Legal Contingencies

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

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NOTE 9 - OFF-BALANCE SHEET LOAN COMMITMENTS

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

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

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

	June 30, 2017		December 31, 2016	
(Dollars in thousands)	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$40,988	$25,500	$7,345	$7,580
Unused lines of credit	105,837	190,451	109,611	145,475
Standby letters of credit	1,556	11,261	2,547	4,706

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. The Company evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Company, upon extension of credit, is based on management’s credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, the Company has rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities. The credit risk to the Company in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers.

NOTE 10 - Fair Value Disclosures

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

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

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

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

The methods of determining the fair value of assets and liabilities presented in this note are consistent with our methodologies disclosed in Note 15 of the Company's 2016 Form 10-K.

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Assets measured at fair value on a recurring basis are summarized in the table below. There were no liabilities measured at fair value on a recurring basis at June 30, 2017 and December 31, 2016.

(Dollars in thousands) June 30, 2017	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale				
U.S. Government agency obligations	$—	$133,805	$ —	$133,805
U.S. Treasury notes	—	4,873	—	4,873
Mortgage-backed securities, residential	—	22,507	—	22,507
Asset backed securities	—	12,799	—	12,799
State and municipal	—	25,151	—	25,151
Corporate bonds	—	25,904	—	25,904
SBA pooled securities	—	144	—	144
Mutual fund	2,023	—	—	2,023
	$2,023	$225,183	$ —	$227,206

(Dollars in thousands) December 31, 2016	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale				
U.S. Government agency obligations	$—	$180,942	$ —	$180,942
Mortgage-backed securities, residential	—	24,990	—	24,990
Asset backed securities	—	12,902	—	12,902
State and municipal	—	26,637	—	26,637
Corporate bonds	—	27,390	—	27,390
SBA pooled securities	—	157	—	157
Mutual fund	2,011	—	—	2,011
	$2,011	$273,018	$ —	$275,029

There were no transfers between levels during 2017 or 2016.

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Assets measured at fair value on a non-recurring basis are summarized in the table below. There were no liabilities measured at fair value on a non-recurring basis at June 30, 2017 and December 31, 2016.

(Dollars in thousands) June 30, 2017	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Impaired loans				
Commercial real estate	$—	$ —	$43	$43
Commercial	—	—	11,603	11,603
Factored receivables	—	—	1,745	1,745
Other real estate owned [1]				
Commercial	—	—	92	92
Construction, land development, land	—	—	2,000	2,000
1-4 family residential properties	—	—	83	83
	$—	$ —	$15,566	$15,566

(Dollars in thousands) December 31, 2016	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Impaired loans				
Commercial real estate	$—	$ —	$417	$417
Construction, land development, land	—	—	252	252
1-4 family residential properties	—	—	7	7
Commercial	—	—	12,921	12,921
Factored receivables	—	—	1,630	1,630
PCI	—	—	170	170
Other real estate owned [1]				
Commercial	—	—	698	698
1-4 family residential properties	—	—	485	485
Construction, land development, land	—	—	467	467
	$—	$ —	$17,047	$17,047

[1] Represents the fair value of OREO that was adjusted during the period and subsequent to its initial classification as OREO.

Impaired Loans with Specific Allocation of ALLL: A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due pursuant to the contractual terms of the loan agreement. Impairment is measured by estimating the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the underlying fair value of the loan’s collateral. For real estate loans, fair value of the impaired loan’s collateral is determined by third party appraisals, which are then adjusted for the estimated selling and closing costs related to liquidation of the collateral. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value. For non-real estate loans, fair value of the impaired loan’s collateral may be determined using an appraisal, net book value per the borrower’s financial statements, or aging reports, adjusted or discounted based on management’s historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business.

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OREO: OREO is primarily comprised of real estate acquired in partial or full satisfaction of loans. OREO is recorded at its estimated fair value less estimated selling and closing costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs charged to the ALLL. Subsequent changes in fair value are reported as adjustments to the carrying amount and are recorded against earnings. The Company outsources the valuation of OREO with material balances to third party appraisers. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value.

The estimated fair values of the Company's financial instruments not measured at fair value on a recurring or non-recurring basis at June 30, 2017 and December 31, 2016 were as follows:

(Dollars in thousands)	Carrying	Fair Value Measurements Using			Total
June 30, 2017	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$117,502	$117,502	$—	$—	$117,502
Securities - held to maturity	26,036	—	17,902	8,464	26,366
Loans not previously presented, net	2,261,912	—	—	2,270,737	2,270,737
FHLB stock	14,566	N/A	N/A	N/A	N/A
Accrued interest receivable	11,699	—	11,699	—	11,699
Financial liabilities:					
Deposits	2,072,181	—	2,071,279	—	2,071,279
Customer repurchase agreements	14,959	—	14,959	—	14,959
Federal Home Loan Bank advances	340,000	—	339,957	—	339,957
Subordinated notes	48,780	—	50,768	—	50,768
Junior subordinated debentures	32,943	—	33,100	—	33,100
Accrued interest payable	2,933	—	2,933	—	2,933

(Dollars in thousands)	Carrying	Fair Value Measurements Using			Total
December 31, 2016	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$114,514	$114,514	$—	$—	$114,514
Securities - held to maturity	29,352	—	27,498	3,323	30,821
Loans not previously presented, net	1,996,822	—	—	2,002,487	2,002,487
FHLB stock	8,430	N/A	N/A	N/A	N/A
Accrued interest receivable	12,663	—	12,663	—	12,663

Financial liabilities:					
Deposits	2,015,785	—	2,014,922	—	2,014,922
Customer repurchase agreements	10,490	—	10,490	—	10,490
Federal Home Loan Bank advances	230,000	—	230,000	—	230,000
Subordinated notes	48,734	—	50,920	—	50,920
Junior subordinated debentures	32,740	—	32,905	—	32,905
Accrued interest payable	2,682	—	2,682	—	2,682

NOTE 11 - Regulatory Matters

The Company (on a consolidated basis) and TBK Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's or TBK Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and TBK Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Company is subject to the Basel III regulatory capital framework. Beginning in January 2016, the implementation of the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer was 1.25% and 0.625% at June 30, 2017 and December 31, 2016, respectively. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases, and to pay discretionary bonuses to executive officers.

Quantitative measures established by regulation to ensure capital adequacy require the Company and TBK Bank to maintain minimum amounts and ratios (set forth in the table below) of total, common equity Tier 1, and Tier 1 capital to risk weighted assets, and of Tier 1 capital to average assets. Management believes, as of June 30, 2017 and December 31, 2016, the Company and TBK Bank meet all capital adequacy requirements to which they are subject, including the capital conservation buffer requirement.

As of June 30, 2017 and December 31, 2016, TBK Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," TBK Bank must maintain minimum total risk based, common equity Tier 1 risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since June 30, 2017 that management believes have changed TBK Bank's category.

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The actual capital amounts and ratios for the Company and TBK Bank are presented in the following table as of June 30, 2017 and December 31, 2016. The capital adequacy amounts and ratios below do not include the capital conservation buffer in effect at each respective date.

(Dollars in thousands)	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of June 30, 2017	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$371,471	13.9%	$213,796	8.0%	N/A	N/A
TBK Bank, SSB	$308,862	12.1%	$204,206	8.0%	$255,258	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$302,540	11.3%	$160,641	6.0%	N/A	N/A
TBK Bank, SSB	$288,804	11.3%	$153,347	6.0%	$204,463	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$260,699	9.7%	$120,943	4.5%	N/A	N/A
TBK Bank, SSB	$288,804	11.3%	$115,010	4.5%	$166,126	6.5%