

Triumph Bancorp, Inc.  
Form 10-Q  
October 19, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-36722

TRIUMPH BANCORP, INC.

(Exact name of registrant as specified in its charter)

Texas 20-0477066  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

12700 Park Central Drive, Suite 1700

Dallas, Texas 75251

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(Address of principal executive offices)

(214) 365-6900

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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

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## 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,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| 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         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                      |                      |
| <b>Liabilities</b>   |                                      |                      |
| <b>Deposits</b>  |                                      |                      |
| 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<br>Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                |
|--|--|---------------|------------------------------------|----------------|
|  | 2018                                   | 2017          | 2018                               | 2017           |
| <b>Interest and dividend income:</b>                       |  |               |                                    |                |
| 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            |
| <b>Total interest income</b>                               | <b>71,759</b>                          | <b>45,137</b> | <b>187,126</b>                     | <b>125,007</b> |
| <b>Interest expense:</b>                                   |  |               |                                    |                |
| 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          |
| <b>Total interest expense</b>                              | <b>9,977</b>                           | <b>5,625</b>  | <b>24,957</b>                      | <b>15,119</b>  |
| <b>Net interest income</b>                                 | <b>61,782</b>                          | <b>39,512</b> | <b>162,169</b>                     | <b>109,888</b> |
| Provision for loan losses                                  | 6,803                                  | 572           | 14,257                             | 9,697          |
| <b>Net interest income after provision for loan losses</b> | <b>54,979</b>                          | <b>38,940</b> | <b>147,912</b>                     | <b>100,191</b> |
| <b>Noninterest income:</b>                                 |  |               |                                    |                |
| 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          |
| <b>Total noninterest income</b>                            | <b>6,059</b>                           | <b>4,171</b>  | <b>16,176</b>                      | <b>36,658</b>  |
| <b>Noninterest expense:</b>                                |  |               |                                    |                |
| 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<br>Ended<br>September 30,<br>2018 |         | Nine Months<br>Ended<br>September 30,<br>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<br>Stock<br>Liquidation<br>Preference<br>Amount | Common Stock<br>Shares<br>Outstanding | Par<br>Amount | Additional<br>Paid-in-<br>Capital | Treasury Stock<br>Shares<br>Outstanding | Cost      | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total<br>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<br>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<br>Ended<br>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<br>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:

| (Dollars in thousands)               | Loans,<br>Excluding<br>PCI<br>Loans | PCI<br>Loans | Total<br>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)<br>September 30, 2018 | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>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<br>Cost | Gross<br>Unrecognized<br>Gains | Gross<br>Unrecognized<br>Losses | Fair<br>Value |
|------------------------------|-------------------|--------------------------------|---------------------------------|---------------|
| Held to maturity securities: |                   |                                |                                 |               |
| CLO securities               | \$ 8,403          | \$ 230                         | \$ (539)                        | ) \$8,094     |

| (Dollars in thousands)<br>December 31, 2017 | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>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<br>Cost | Gross<br>Unrecognized<br>Gains | Gross<br>Unrecognized<br>Losses | Fair<br>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)<br>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)<br>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)<br>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)<br>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 | ) |
|----------------|---------|--------|-----------|-----------|-----------|-----------|---|

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)<br>September 30, 2018 | Loan Evaluation |              |          |             | ALLL Allocations |              |     |            |
|--|-----------------|--------------|----------|-------------|------------------|--------------|-----|------------|
|  | Individually    | Collectively | PCI      | Total loans | Individually     | Collectively | PCI | Total ALLL |
| 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              | 134          | —   | 259        |
| Farmland                                     | 4,156           | 172,782      | 375      | 177,313     | 72               | 431          | —   | 503        |
| Commercial                                   | 19,680          | 1,102,309    | 1,609    | 1,123,598   | 1,496            | 11,253       | 4   | 12,753     |
| Factored receivables                         | 6,841           | 604,444      | —        | 611,285     | 1,916            | 5,655        | —   | 7,571      |
| Consumer                                     | 256             | 31,167       | —        | 31,423      | 29               | 552          | —   | 581        |
| Mortgage warehouse                           | —               | 276,358      | —        | 276,358     | —                | 276          | —   | 276        |
|  | \$41,241        | \$3,450,624  | \$20,278 | \$3,512,143 | \$4,293          | \$22,959     | \$4 | \$27,256   |

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





## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents average impaired loans and interest recognized on impaired:

| (Dollars in thousands)               | Three Months Ended<br>September 30, 2018 |                        | Three Months Ended<br>September 30, 2017 |                        |
|--------------------------------------|--|------------------------|--|------------------------|
|                                      | Average<br>Impaired<br>Loans             | Interest<br>Recognized | Average<br>Impaired<br>Loans             | Interest<br>Recognized |
| Commercial real estate               | \$6,861                                  | \$ 70                  | \$853                                    | \$ —                   |
| Construction, land development, land | 181                                      | 1                      | 135                                      | —                      |
| 1-4 family residential properties    | 2,205                                    | 21                     | 1,817                                    | 16                     |
| Farmland                             | 3,835                                    | 10                     | 3,361                                    | 14                     |
| Commercial                           | 24,579                                   | 46                     | 22,003                                   | 167                    |
| Factored receivables                 | 5,724                                    | —                      | 3,907                                    | —                      |
| Consumer                             | 260                                      | 3                      | 136                                      | 4                      |
| Mortgage warehouse                   | —  | —                      | —  | —                      |
| PCI                                  | 75                                       | —                      | 143                                      | —                      |
|                                      | \$43,720                                 | \$ 151                 | \$32,355                                 | \$ 201                 |

  

| (Dollars in thousands)               | Nine Months Ended<br>September 30, 2018 |                        | Nine Months Ended<br>September 30, 2017 |                        |
|--------------------------------------|---|------------------------|---|------------------------|
|                                      | Average<br>Impaired<br>Loans            | Interest<br>Recognized | Average<br>Impaired<br>Loans            | Interest<br>Recognized |
| Commercial real estate               | \$4,429                                 | \$ 76                  | \$1,150                                 | \$ 1                   |
| Construction, land development, land | 178                                     | 1                      | 249                                     | —                      |
| 1-4 family residential properties    | 2,439                                   | 25                     | 1,509                                   | 23                     |
| Farmland                             | 3,978                                   | 27                     | 2,287                                   | 32                     |
| Commercial                           | 23,149                                  | 665                    | 27,077                                  | 398                    |
| Factored receivables                 | 5,783                                   | —                      | 3,847                                   | —                      |
| Consumer                             | 320                                     | 4                      | 117                                     | 4                      |
| Mortgage warehouse                   | —                                       | —                      | —                                       | —                      |
| PCI                                  | 35                                      | —                      | 262                                     | —                      |
|                                      | \$40,311                                | \$ 798                 | \$36,498                                | \$ 458                 |

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Past Due and Nonaccrual Loans

The following is a summary of contractually past due and nonaccrual loans:

| (Dollars in thousands)               | Past Due               | Past Due                       | Nonaccrual | Total     |
|--------------------------------------|------------------------|--------------------------------|------------|-----------|
|                                      | 30-89<br>Days<br>Still | 90<br>Days or<br>More<br>Still |            |           |
| September 30, 2018                   | Accruing               | Accruing                       |            |           |
| Commercial real estate               | \$ 2,493               | \$ —                           | \$ 7,873   | \$ 10,366 |
| Construction, land development, land | 769                    | —                              | 221        | 990       |
| 1-4 family residential properties    | 1,253                  | 79                             | 2,156      | 3,488     |
| Farmland                             | —                      | —                              | 3,387      | 3,387     |
| Commercial                           | 3,976                  | 246                            | 16,865     | 21,087    |
| Factored receivables                 | 32,645                 | 2,252                          | —          | 34,897    |
| Consumer                             | 820                    | —                              | 276        | 1,096     |
| Mortgage warehouse                   | —                      | —                              | —          | —         |
| PCI                                  | 206                    | —                              | 2,969      | 3,175     |
|                                      | \$ 42,162              | \$ 2,577                       | \$ 33,747  | \$ 78,486 |

| (Dollars in thousands)               | Past Due               | Past Due                       | Nonaccrual | Total     |
|--------------------------------------|------------------------|--------------------------------|------------|-----------|
|                                      | 30-89<br>Days<br>Still | 90<br>Days or<br>More<br>Still |            |           |
| December 31, 2017                    | Accruing               | Accruing                       |            |           |
| Commercial real estate               | \$ 1,374               | \$ —                           | \$ 1,012   | \$ 2,386  |
| Construction, land development, land | —                      | —                              | 136        | 136       |
| 1-4 family residential properties    | 1,378                  | 62                             | 2,625      | 4,065     |
| Farmland                             | 250                    | 109                            | 3,412      | 3,771     |
| Commercial                           | 6,630                  | 39                             | 22,247     | 28,916    |
| Factored receivables                 | 20,858                 | 1,454                          | —          | 22,312    |
| Consumer                             | 947                    | —                              | 384        | 1,331     |
| Mortgage warehouse                   | 165                    | —                              | —          | 165       |
| PCI                                  | 72                     | —                              | 2,333      | 2,405     |
|                                      | \$ 31,674              | \$ 1,664                       | \$ 32,149  | \$ 65,487 |

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

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| (Dollars in thousands)                             | September 30,<br>2018 | December<br>31, 2017 |
|--|-----------------------|----------------------|
| Nonaccrual loans <sup>(1)</sup>                    | \$ 33,747             | \$ 32,149            |
| Factored receivables greater than 90 days past due | 2,252                 | 1,454                |
| Troubled debt restructurings accruing interest     | 3,603                 | 5,128                |
|  | \$ 39,602             | \$ 38,731            |

<sup>(1)</sup>Includes troubled debt restructurings of \$3,927,000 and \$14,009,000 at September 30, 2018 and December 31, 2017, 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.

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## 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 September 30, 2018 and December 31, 2017, based on the most recent analysis performed, the risk category of loans is as follows:

(Dollars in thousands)

| September 30, 2018                   | Pass        | Substandard | Doubtful | PCI      | Total       |
|--------------------------------------|-------------|-------------|----------|----------|-------------|
| Commercial real estate               | \$889,505   | \$ 6,176    | \$ —     | \$10,813 | \$906,494   |
| Construction, land development, land | 183,706     | 377         | —        | 6,837    | 190,920     |
| 1-4 family residential               | 191,844     | 2,264       | —        | 644      | 194,752     |
| Farmland                             | 171,631     | 5,307       | —        | 375      | 177,313     |
| Commercial                           | 1,099,057   | 22,932      | —        | 1,609    | 1,123,598   |
| Factored receivables                 | 605,002     | 5,340       | 943      | —        | 611,285     |
| Consumer                             | 31,160      | 263         | —        | —        | 31,423      |
| Mortgage warehouse                   | 276,358     | —           | —        | —        | 276,358     |
|                                      | \$3,448,263 | \$ 42,659   | \$ 943   | \$20,278 | \$3,512,143 |

(Dollars in thousands)

| December 31, 2017                    | Pass      | Substandard | Doubtful | PCI     | Total     |
|--------------------------------------|-----------|-------------|----------|---------|-----------|
| Commercial real estate               | \$732,175 | \$ 3,956    | \$ —     | \$9,762 | \$745,893 |
| Construction, land development, land | 130,732   | 136         | —        | 3,944   | 134,812   |
| 1-4 family residential               | 122,044   | 2,687       | —        | 1,096   | 125,827   |
| Farmland                             | 171,017   | 9,015       | —        | 109     | 180,141   |
| Commercial                           | 878,957   | 41,168      | —        | 687     | 920,812   |

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|                      |             |           |          |          |             |
|----------------------|-------------|-----------|----------|----------|-------------|
| Factored receivables | 370,839     | 2,325     | 1,246    | —        | 374,410     |
| Consumer             | 30,739      | 392       | —        | —        | 31,131      |
| Mortgage warehouse   | 297,830     | —         | —        | —        | 297,830     |
|                      | \$2,734,333 | \$ 59,679 | \$ 1,246 | \$15,598 | \$2,810,856 |

Troubled Debt Restructurings

The Company had a recorded investment in troubled debt restructurings of \$7,530,000 and \$19,137,000 as of September 30, 2018 and December 31, 2017, respectively. The Company had allocated specific allowances for these loans of \$640,000 and \$535,000 at September 30, 2018 and December 31, 2017, respectively, and had not committed to lend additional amounts. The Company's troubled debt restructurings are the result of granting a borrower that is experiencing financial difficulty a concession such as extending amortization periods, reducing contractual interest rates, or a combination thereof. The Company did not grant principal reductions on any restructured loans.



## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents loans modified as troubled debt restructurings that occurred during the nine months ended September 30, 2018 and 2017:

| (Dollars in thousands)<br>September 30, 2018 | Number of<br>Loans | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
|--|--------------------|---|--|
| 1-4 family residential properties            | 3                  | \$ 111  | \$ 111   |
| Farmland                                     | 1                  | 263   | 263  |
| Commercial                                   | 10                 | 875   | 875  |
| Total  | 14                 | \$ 1,249  | \$ 1,249   |

| (Dollars in thousands)<br>September 30, 2017 | Number of<br>Loans | Pre-Modification<br>Outstanding<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
|--|--------------------|---|--|
| Commercial                                   | 5                  | \$ 2,184  | \$ 2,184   |

During the nine months ended September 30, 2018, the Company had one loan modified as troubled debt restructurings with a recorded investment of \$156,000 for which there was a payment default within twelve months following the modification. During the nine months ended September 30, 2017, the Company had four loans modified as troubled debt restructurings with a recorded investment of \$2,999,000 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. Default is determined at 90 or more days past due.

## Residential Real Estate Loans In Process of Foreclosure

At September 30, 2018, the Company had \$21,000 in 1-4 family residential real estate loans for which formal foreclosure proceedings were in process.

## 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 September 30, 2018 and December 31, 2017, are as follows:

|  | September 30,<br>2018 | December<br>31,<br>2017 |
|--|-----------------------|-------------------------|
| Contractually required principal and interest: |                       |                         |

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|   |           |           |
|---|-----------|-----------|
| Real estate loans   | \$ 22,877 | \$ 16,360 |
| Commercial loans  | 4,141     | 3,501     |
| Outstanding contractually required principal and interest | \$ 27,018 | \$ 19,861 |
| Gross carrying amount included in loans receivable        | \$ 20,278 | \$ 15,598 |

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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The changes in accretable yield during the three and nine months ended September 30, 2018 and 2017 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<br>Ended<br>September 30,<br>2018 |         | September 30,<br>2017 |         | Nine Months<br>Ended<br>September 30,<br>2018 |  | September 30,<br>2017 |  |
|---|--|---------|-----------------------|---------|---|--|-----------------------|--|
| Accretable yield, beginning balance                     | \$2,105  | \$3,126 | \$2,793               | \$4,261 |   |  |                       |  |
| Additions   | 2,997  | —       | 2,997                 | —       |   |  |                       |  |
| Accretion   | (439 )   | (411 )  | (1,177)               | (3,117) |   |  |                       |  |
| Reclassification from nonaccretable to accretable yield | 124  | 56      | 174                   | 2,067   |   |  |                       |  |
| Disposals   | —  | (2 )    | —                     | (442 )  |   |  |                       |  |
| Accretable yield, ending balance                        | \$4,787  | \$2,769 | \$4,787               | \$2,769 |   |  |                       |  |

## NOTE 5 - GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

|                          | September 30, 2018          |                             | December 31, 2017         |                             |                             |                           |
|--------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| (Dollars in thousands)   | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Goodwill                 | \$ 158,728                  |                             | \$ 44,126                 |                             |                             |                           |
| Core deposit intangibles | \$43,578                    | \$ (14,666 )                | \$ 28,912                 | \$29,511                    | \$ (11,335 )                | \$ 18,176                 |
| Other intangible assets  | 15,700                      | (1,498 )                    | 14,202                    | 1,764                       | (288 )                      | 1,476                     |
|                          | \$59,278                    | \$ (16,164 )                | \$ 43,114                 | \$31,275                    | \$ (11,623 )                | \$ 19,652                 |

The changes in goodwill and intangible assets during the three and nine months ended September 30, 2018 and 2017 are as follows:

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| (Dollars in thousands)      | Three Months           |          | Nine Months Ended |          |
|-----------------------------|------------------------|----------|-------------------|----------|
|                             | Ended<br>September 30, |          | September 30,     |          |
|                             | 2018                   | 2017     | 2018              | 2017     |
| Beginning balance           | \$ 117,777             | \$43,322 | \$63,778          | \$46,531 |
| Acquired goodwill           | 72,060                 | —        | 115,035           | 152      |
| Acquired intangibles        | 14,069                 | —        | 28,004            | —        |
| Divestiture                 | —                      | —        | (433 )            | (1,339 ) |
| Amortization of intangibles | (2,064 )               | (870 )   | (4,542 )          | (2,892 ) |
| Ending balance              | \$201,842              | \$42,452 | \$201,842         | \$42,452 |

NOTE 6 – Variable Interest Entities

Collateralized Loan Obligation Funds – Closed

The Company, through its subsidiary Triumph Capital Advisors, 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 \$1,717,000 for the three months ended March 31, 2017. 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 acted as asset manager or staffing and services provider for any CLO funds.

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

| (Dollars in thousands)             | Offering<br>Date   | Offering<br>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, which represent the Company's maximum exposure to loss as a result of its involvement with the CLO funds, totaled \$8,403,000 and \$8,557,000 at September 30, 2018 and December 31, 2017, 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 closed CLO funds in its financial statements. The Company concluded that the closed CLO funds were 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 was not the primary beneficiary and therefore was not required to consolidate the assets, liabilities, equity, or operations of the closed CLO funds in the Company's financial statements.

## Collateralized Loan Obligation Fund – Warehouse Phase

From time to time, the Company may invest in the subordinated debt of entities formed to be the issuers of CLO offerings during their warehouse phases. The Company's investments in these CLO funds are repaid when the CLO funds' warehouse phases are closed and the CLO offerings are issued. The Company's maximum exposure to loss as a result of its involvement with these CLO funds is limited to the carrying amount of its investments in the subordinated debt of the CLO funds. The Company did not hold any investments in the subordinated debt of CLO funds during their warehouse phase at December 31, 2017 or during the nine months ended September 30, 2018. Income from the Company's investments in CLO warehouse entities totaled \$0 and \$1,954,000 during the three and nine months ended September 30, 2017, respectively, which is included in other noninterest income within the Company's consolidated statements of income.

The Company performed a consolidation analysis of CLO funds during their warehouse phases and concluded that the CLO funds were variable interest entities and that the Company held a variable interest in the entities that could potentially be significant to the entities in the form of its investments in the subordinated notes of the 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 entities in the Company's financial statements.

## NOTE 7 - Deposits

Deposits at September 30, 2018 and December 31, 2017 are summarized as follows:

| (Dollars in thousands)         | September 30,<br>2018 | December<br>31, 2017 |
|--------------------------------|-----------------------|----------------------|
| Noninterest bearing demand     | \$ 697,903            | \$564,225            |
| Interest bearing demand        | 608,775               | 403,244              |
| Individual retirement accounts | 118,459               | 108,505              |
| Money market                   | 413,402               | 283,969              |
| Savings                        | 373,062               | 235,296              |
| Certificates of deposit        | 854,048               | 837,384              |
| Brokered deposits              | 373,400               | 188,725              |
| Total Deposits                 | \$ 3,439,049          | \$2,621,348          |

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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At September 30, 2018, scheduled maturities of certificates of deposits, individual retirement accounts and brokered deposits are as follows:

| (Dollars in thousands)            | September 30,<br>2018 |
|-----------------------------------|-----------------------|
| Within one year                   | \$ 1,052,802          |
| After one but within two years    | 192,942               |
| After two but within three years  | 46,448                |
| After three but within four years | 38,478                |
| After four but within five years  | 8,524                 |
| After five years                  | 6,713                 |
| Total                             | \$ 1,345,907          |

Time deposits, including individual retirement accounts, certificates of deposit, and brokered deposits, with individual balances of \$250,000 and greater totaled \$185,443,000 and \$158,197,000 at September 30, 2018 and December 31, 2017, 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.

## 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:

| (Dollars in thousands)         | September 30, 2018 |               |           | December 31, 2017 |               |           |
|--------------------------------|--------------------|---------------|-----------|-------------------|---------------|-----------|
|                                | Fixed Rate         | Variable Rate | Total     | Fixed Rate        | Variable Rate | Total     |
| Unused lines of credit         | \$78,708           | \$418,319     | \$497,027 | \$133,634         | \$242,236     | \$375,870 |
| Standby letters of credit      | \$2,148            | \$5,641       | \$7,789   | \$1,998           | \$8,169       | \$10,167  |
| Mortgage warehouse commitments | \$—                | \$305,053     | \$305,053 | \$—               | \$239,632     | \$239,632 |

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.

Mortgage warehouse commitments are unconditionally cancellable and represent the unused capacity on mortgage warehouse facilities the Company has approved. The Company reserves the right to refuse to buy any mortgage loans offered for sale by a customer, for any reason, at the Company's sole and absolute discretion.



TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Company records a reserve for loan and lease losses on off-balance sheet lending-related commitments through a charge to other noninterest expense on the Company's consolidated statements of income. At September 30, 2018 and December 31, 2017, the reserve for loan and lease losses on off-balance sheet lending-related commitments totaled \$511,000 and \$501,000, respectively, and was included in other liabilities on the Company's consolidated balance sheets.

In addition to the commitments above, the Company had overdraft protection available in the amounts of \$3,145,000 and \$2,397,000 at September 30, 2018 and December 31, 2017, respectively.

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 2017 Form 10-K, except for the valuation of loans held for investment which was impacted by the adoption of ASU 2016-01. In accordance with ASU 2016-01, the fair value of loans held for investment, excluding previously presented impaired loans measured at fair value on a non-recurring basis, is estimated using discounted cash flow analyses. The discount rates used to determine fair value use interest rate spreads that reflect factors such as liquidity, credit, and nonperformance risk of the loans. Loans are considered a Level 3 classification.

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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(Unaudited)

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 September 30, 2018 and December 31, 2017.

| (Dollars in thousands)                  | Fair Value Measurements |           |         | Total<br>Fair<br>Value |
|---|-------------------------|-----------|---------|------------------------|
|   | Using<br>Level<br>1     | Level 2   | Level 3 |                        |
| September 30, 2018                      |                         |           |         |                        |
| <b>Securities available for sale</b>    |                         |           |         |                        |
| U.S. Government agency obligations      | \$—                     | \$94,774  | \$ —    | \$94,774               |
| U.S. Treasury notes                     | —                       | 1,905     | —       | 1,905                  |
| Mortgage-backed securities, residential | —                       | 30,581    | —       | 30,581                 |
| Asset backed securities                 | —                       | 10,805    | —       | 10,805                 |
| State and municipal                     | —                       | 144,062   | —       | 144,062                |
| Corporate bonds                         | —                       | 68,986    | —       | 68,986                 |
| SBA pooled securities                   | —                       | 4,868     | —       | 4,868                  |
|   | \$—                     | \$355,981 | \$ —    | \$355,981              |
| <b>Equity securities</b>                |                         |           |         |                        |
| Mutual fund                             | \$4,981                 | \$—       | \$ —    | \$4,981                |
|   |                         |           |         |                        |
| Loans held for sale                     | \$—                     | \$683     | \$ —    | \$683                  |
|   |                         |           |         |                        |
|   |                         |           |         |                        |
| (Dollars in thousands)                  | Fair Value Measurements |           |         | Total<br>Fair<br>Value |
|   | Using<br>Level<br>1     | Level 2   | Level 3 |                        |
| December 31, 2017                       |                         |           |         |                        |
| <b>Securities available for sale</b>    |                         |           |         |                        |
| U.S. Government agency obligations      | \$—                     | \$109,890 | \$ —    | \$109,890              |
| U.S. Treasury notes                     | —                       | 1,934     | —       | 1,934                  |
| Mortgage-backed securities, residential | —                       | 33,663    | —       | 33,663                 |
| Asset backed securities                 | —                       | 11,845    | —       | 11,845                 |
| State and municipal                     | —                       | 74,391    | —       | 74,391                 |
| Corporate bonds                         | —                       | 15,320    | —       | 15,320                 |
| SBA pooled securities                   | —                       | 3,560     | —       | 3,560                  |
|   | \$—                     | \$250,603 | \$ —    | \$250,603              |
| <b>Equity securities</b>                |                         |           |         |                        |
| Mutual fund                             | \$5,006                 | \$—       | \$ —    | \$5,006                |

There were no transfers between levels during 2018 or 2017.



## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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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 September 30, 2018 and December 31, 2017.

| (Dollars in thousands)                 | Fair Value Measurements |      |          | Total Fair Value |
|--|-------------------------|------|----------|------------------|
|  | Using Level             |      | Level 3  |                  |
| September 30, 2018                     | 1                       | 2    | Level 3  | Value            |
| Impaired loans                         |                         |      |          |                  |
| Commercial real estate                 | \$—                     | \$ — | \$5,450  | \$5,450          |
| Construction, land development, land   | —                       | —    | 93       | 93               |
| 1-4 family residential properties      | —                       | —    | 98       | 98               |
| Farmland                               | —                       | —    | 842      | 842              |
| Commercial                             | —                       | —    | 2,124    | 2,124            |
| Factored receivables                   | —                       | —    | 4,925    | 4,925            |
| Consumer                               | —                       | —    | 63       | 63               |
| PCI                                    | —                       | —    | 67       | 67               |
| Other real estate owned <sup>(1)</sup> |                         |      |          |                  |
| Commercial                             | —                       | —    | 819      | 819              |
|  | \$—                     | \$ — | \$14,481 | \$14,481         |

| (Dollars in thousands)                 | Fair Value Measurements |      |          | Total Fair Value |
|--|-------------------------|------|----------|------------------|
|  | Using Level             |      | Level 3  |                  |
| December 31, 2017                      | 1                       | 2    | Level 3  | Value            |
| Impaired loans                         |                         |      |          |                  |
| Commercial real estate                 | \$—                     | \$ — | \$42     | \$42             |
| 1-4 family residential properties      | —                       | —    | 85       | 85               |
| Commercial                             | —                       | —    | 7,785    | 7,785            |
| Factored receivables                   | —                       | —    | 3,777    | 3,777            |
| Consumer                               | —                       | —    | 191      | 191              |
| Other real estate owned <sup>(1)</sup> |                         |      |          |                  |
| Commercial                             | —                       | —    | 138      | 138              |
| Construction, land development, land   | —                       | —    | 202      | 202              |
|  | \$—                     | \$ — | \$12,220 | \$12,220         |

<sup>(1)</sup> Represents the fair value of OREO that was adjusted during the year to date 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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## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 September 30, 2018 and December 31, 2017 were as follows:

| (Dollars in thousands)<br>September 30, 2018        | Carrying<br>Amount | Fair Value Measurements Using |           |           | Total<br>Fair Value |
|---|--------------------|-------------------------------|-----------|-----------|---------------------|
|   |                    | Level 1                       | Level 2   | Level 3   |                     |
| <b>Financial assets:</b>                            |                    |                               |           |           |                     |
| Cash and cash equivalents                           | \$282,409          | \$282,409                     | \$—       | \$—       | \$282,409           |
| Securities - held to maturity                       | 8,403              | —                             | —         | 8,094     | 8,094               |
| Loans not previously presented, gross               | 3,494,184          | —                             | —         | 3,432,384 | 3,432,384           |
| FHLB stock  | 23,109             | N/A                           | N/A       | N/A       | N/A                 |
| Accrued interest receivable                         | 20,141             | 20,141                        | —         | —         | 20,141              |
| <b>Financial liabilities:</b>                       |                    |                               |           |           |                     |
| Deposits  | 3,439,049          | —                             | 3,428,722 | —         | 3,428,722           |
| Customer repurchase agreements                      | 13,248             | —                             | 13,248    | —         | 13,248              |
| Federal Home Loan Bank advances                     | 330,000            | —                             | 330,000   | —         | 330,000             |
| Subordinated notes                                  | 48,903             | —                             | 51,125    | —         | 51,125              |
| Junior subordinated debentures                      | 38,966             | —                             | 41,057    | —         | 41,057              |
| Accrued interest payable                            | 6,072              | 6,072                         | —         | —         | 6,072               |
| <b>(Dollars in thousands)<br/>December 31, 2017</b> |                    |                               |           |           |                     |
|   | Carrying<br>Amount | Fair Value Measurements Using |           |           | Total<br>Fair Value |
|   |                    | Level 1                       | Level 2   | Level 3   |                     |
| <b>Financial assets:</b>                            |                    |                               |           |           |                     |
| Cash and cash equivalents                           | \$134,129          | \$134,129                     | \$—       | \$—       | \$134,129           |
| Securities - held to maturity                       | 8,557              | —                             | —         | 7,527     | 7,527               |
| Loans not previously presented, net                 | 2,780,228          | —                             | —         | 2,800,362 | 2,800,362           |
| Loans included in assets held for sale, net         | 68,668             | —                             | —         | 69,268    | 69,268              |
| FHLB stock  | 16,006             | N/A                           | N/A       | N/A       | N/A                 |
| Accrued interest receivable                         | 15,517             | 15,517                        | —         | —         | 15,517              |

| Financial liabilities:          |           |       |           |   |           |
|---------------------------------|-----------|-------|-----------|---|-----------|
| Deposits                        | 2,621,348 | —     | 2,616,034 | — | 2,616,034 |
| Customer repurchase agreements  | 11,488    | —     | 11,488    | — | 11,488    |
| Federal Home Loan Bank advances | 365,000   | —     | 365,000   | — | 365,000   |
| Subordinated notes              | 48,828    | —     | 52,310    | — | 52,310    |
| Junior subordinated debentures  | 38,623    | —     | 41,563    | — | 41,563    |
| Accrued interest payable        | 3,323     | 3,323 | —         | — | 3,323     |

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

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 September 30, 2018 and December 31, 2017, the Company and TBK Bank meet all capital adequacy requirements to which they are subject.

As of September 30, 2018 and December 31, 2017, 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 September 30, 2018 that management believes have changed TBK Bank's category.



## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The actual capital amounts and ratios for the Company and TBK Bank as of September 30, 2018 and December 31, 2017 are presented in the following table.

| (Dollars in thousands)  | Actual    |       | Minimum for               |       | To Be Well        |                   |
|---|-----------|-------|---------------------------|-------|-------------------|-------------------|
|   | Amount    | Ratio | Capital Adequacy Purposes | Ratio | Capitalized Under | Prompt Corrective |
| As of September 30, 2018                                      | Amount    | Ratio | Amount                    | Ratio | Action Provisions | Ratio             |
| <b>Total capital (to risk weighted assets)</b>                |           |       |                           |       |                   |                   |
| Triumph Bancorp, Inc.   | \$529,965 | 13.0% | \$324,920                 | 8.0%  | N/A               | N/A               |
| TBK Bank, SSB   | \$471,802 | 12.0% | \$314,844                 | 8.0%  | \$393,555         | 10.0%             |
| <b>Tier 1 capital (to risk weighted assets)</b>               |           |       |                           |       |                   |                   |
| Triumph Bancorp, Inc.   | \$453,295 | 11.2% | \$243,690                 | 6.0%  | N/A               | N/A               |
| TBK Bank, SSB   | \$444,126 | 11.3% | \$236,133                 | 6.0%  | \$314,843         | 8.0%              |
| <b>Common equity Tier 1 capital (to risk weighted assets)</b> |           |       |                           |       |                   |                   |
| Triumph Bancorp, Inc.   | \$404,671 | 10.0% | \$182,767                 | 4.5%  | N/A               | N/A               |
| TBK Bank, SSB   | \$444,126 | 11.3% | \$177,099                 | 4.5%  | \$255,810         | 6.5%              |
| <b>Tier 1 capital (to average assets)</b>                     |           |       |                           |       |                   |                   |
| Triumph Bancorp, Inc.   | \$453,295 | 11.7% | \$154,333                 | 4.0%  | N/A               | N/A               |
| TBK Bank, SSB   | \$444,126 | 11.7% | \$152,037                 | 4.0%  | \$190,046         | 5.0%              |
| <b>As of December 31, 2017</b>                                |           |       |                           |       |                   |                   |
| <b>Total capital (to risk weighted assets)</b>                |           |       |                           |       |                   |                   |
| Triumph Bancorp, Inc.   | \$436,036 | 13.2% | \$264,026                 | 8.0%  | N/A               | N/A               |
| TBK Bank, SSB   | \$361,068 | 11.4% | \$254,139                 | 8.0%  | \$317,674         | 10.0%             |
| <b>Tier 1 capital (to risk weighted assets)</b>               |           |       |                           |       |                   |                   |
| Triumph Bancorp, Inc.   | \$367,958 | 11.1% | \$198,019                 | 6.0%  | N/A               | N/A               |
| TBK Bank, SSB   | \$341,910 | 10.8% | \$190,603                 | 6.0%  | \$254,137         | 8.0%              |
| <b>Common equity Tier 1 capital (to risk weighted assets)</b> |           |       |                           |       |                   |                   |
| Triumph Bancorp, Inc.   | \$320,265 | 9.7%  | \$148,514                 | 4.5%  | N/A               | N/A               |
| TBK Bank, SSB   | \$341,910 | 10.8% | \$142,952                 | 4.5%  | \$206,486         | 6.5%              |
| <b>Tier 1 capital (to average assets)</b>                     |           |       |                           |       |                   |                   |
| Triumph Bancorp, Inc.   | \$367,958 | 11.8% | \$124,754                 | 4.0%  | N/A               | N/A               |

TBK Bank, SSB

\$341,910 11.1% \$123,088 4.0% \$153,860 5.0%

Dividends paid by TBK Bank are limited to, without prior regulatory approval, current year earnings and earnings less dividends paid during the preceding two years.

Beginning in January 2016, the implementation of the capital conservation buffer set forth by the Basel III regulatory capital framework was effective for the Company starting at 0.625% of risk weighted assets above the minimum risk based capital ratio requirements and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer was 1.875% and 1.25% at September 30, 2018 and December 31, 2017, 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. At September 30, 2018 and December 31, 2017, the Company's and TBK Bank's risk based capital exceeded the required capital conservation buffer.

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 12 – STOCKHOLDERS' EQUITY

The following summarizes the capital structure of Triumph Bancorp, Inc.

## Common Stock

|                     | September 30,<br>2018 | December<br>31, 2017 |
|---------------------|-----------------------|----------------------|
| Shares authorized   | 50,000,000            | 50,000,000           |
| Shares issued       | 26,383,763            | 20,912,396           |
| Treasury shares     | (104,002 )            | (91,951 )            |
| Shares outstanding  | 26,279,761            | 20,820,445           |
| Par value per share | \$ 0.01               | \$ 0.01              |

## Preferred Stock

| (Dollars in thousands, except per share amounts) | Series A              |                      | Series B              |                      |
|--|-----------------------|----------------------|-----------------------|----------------------|
|  | September 30,<br>2018 | December<br>31, 2017 | September 30,<br>2018 | December<br>31, 2017 |
| Shares authorized                                | 50,000                | 50,000               | 115,000               | 115,000              |
| Shares issued                                    | 45,500                | 45,500               | 51,076                | 51,076               |
| Shares outstanding                               | 45,500                | 45,500               | 51,076                | 51,076               |
| Par value per share                              | \$ 0.01               | \$ 0.01              | \$ 0.01               | \$ 0.01              |
| Liquidation preference per share                 | \$ 100                | \$ 100               | \$ 100                | \$ 100               |
| Liquidation preference amount                    | \$ 4,550              | \$ 4,550             | \$ 5,108              | \$ 5,108             |
| Dividend rate                                    | Prime +<br>2%         | Prime +<br>2%        | 8.00 %                | 8.00 %               |
| Dividend rate - floor                            | 8.00 %                | 8.00 %               | N/A                   | N/A                  |
| Subsequent dividend payment dates                | Quarterly             | Quarterly            | Quarterly             | Quarterly            |
| Convertible to common stock                      | Yes                   | Yes                  | Yes                   | Yes                  |
| Conversion period                                | Anytime               | Anytime              | Anytime               | Anytime              |
| Conversion ratio - preferred to common           | 6.94008               | 6.94008              | 6.94008               | 6.94008              |

## Common Stock Offering

On April 12, 2018 the Company completed an underwritten public offering of 5,405,000 shares of the Company's common stock, including 705,000 shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares, at \$37.50 per share for total gross proceeds of \$202,688,000. Net proceeds from the offering, after deducting the underwriting discount and offering expenses, were approximately \$192,053,000.

## NOTE 13 – STOCK BASED COMPENSATION

Stock based compensation expense that has been charged against income was \$913,000 and \$1,966,000 for the three and nine months ended September 30, 2018, respectively, and \$459,000 and \$1,484,000 for the three and nine months ended September 30, 2017, respectively.

#### 2014 Omnibus Incentive Plan

The Company's 2014 Omnibus Incentive Plan ("Omnibus Incentive Plan") provides for the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock awards, restricted stock units, and other awards that may be settled in, or based upon the value of, the Company's common stock. The aggregate number of shares of common stock available for issuance under the Omnibus Incentive Plan is 1,200,000 shares.

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## Restricted Stock Awards

A summary of changes in the Company's nonvested Restricted Stock Awards ("RSAs") under the Omnibus Incentive Plan for the nine months ended September 30, 2018 were as follows:

| Nonvested RSAs                  | Shares    | Weighted-Average<br>Grant-Date<br>Fair Value |
|---------------------------------|-----------|--|
| Nonvested at January 1, 2018    | 102,776   | \$ 18.68                                     |
| Granted                         | 65,001    | 40.64  |
| Vested                          | (63,995 ) | 20.38  |
| Forfeited                       | (2,422 )  | 27.56  |
| Nonvested at September 30, 2018 | 101,360   | \$ 31.48                                     |

RSAs granted to employees under the Omnibus Incentive Plan typically vest over three to four years. Compensation expense for the RSAs will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date. As of September 30, 2018, there was \$2,166,000 of unrecognized compensation cost related to the nonvested RSAs. The cost is expected to be recognized over a remaining period of 3.17 years.

## Restricted Stock Units

A summary of changes in the Company's nonvested Restricted Stock Units ("RSUs") under the Omnibus Incentive Plan for the nine months ended September 30, 2018 were as follows:

| Nonvested RSUs                  | Shares | Weighted-Average<br>Grant-Date<br>Fair Value |
|---------------------------------|--------|--|
| Nonvested at January 1, 2018    | —      | \$ —   |
| Granted                         | 59,658 | 38.75  |
| Vested                          | —      | —  |
| Forfeited                       | —      | —  |
| Nonvested at September 30, 2018 | 59,658 | \$ 38.75                                     |

RSUs granted to employees under the Omnibus Incentive Plan vest after five years. Compensation expense for the RSUs will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date. As of September 30, 2018, there was \$2,118,000 of unrecognized compensation cost related to the nonvested RSUs. The cost is expected to be recognized over a remaining period of 4.59 years.

Performance Stock Units

A summary of changes in the Company’s nonvested Performance Stock Units (“PSUs”) under the Omnibus Incentive Plan for the nine months ended September 30, 2018 were as follows:

| Nonvested PSUs                  | Shares | Weighted-Average<br>Grant-Date<br>Fair Value |
|---------------------------------|--------|--|
| Nonvested at January 1, 2018    | —      | \$ —   |
| Granted                         | 59,658 | 38.57  |
| Vested                          | —      | —  |
| Forfeited                       | —      | —  |
| Nonvested at September 30, 2018 | 59,658 | \$ 38.57                                     |

PSUs granted to employees under the Omnibus Incentive Plan vest after five years. The number of shares issued upon vesting will range from 0% to 175% of the PSUs granted based on the Company’s relative total shareholder return (“TSR”) as compared to the

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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TSR of a specified group of peer banks. Compensation expense for the PSUs will be recognized over the vesting period of the awards based on the fair value of the award at the grant date. The fair value of PSUs granted is estimated using a Monte Carlo simulation. Expected volatilities were determined based on the historical volatilities of the Company and the specified peer group. The risk-free interest rate for the performance period was derived from the Treasury constant maturities yield curve on the valuation date.

|                                |   |   |
|--------------------------------|---|---|
|                                | Nine Months<br>Ended<br>September 30,<br>2018 |   |
| Grant date                     | May 1, 2018                                   |   |
| Performance period             | 5.00 Years                                    |   |
| Stock price                    | \$ 38.85                                      |   |
| Triumph stock price volatility | 29.13   | % |
| Risk-free rate                 | 2.76  | % |

As of September 30, 2018, there was \$2,108,000 of unrecognized compensation cost related to the nonvested PSUs. The cost is expected to be recognized over a remaining period of 4.59 years.

## Stock Options

A summary of the changes in the Company's stock options under the Omnibus Incentive Plan for the nine months ended September 30, 2018 were as follows:

| Stock Options   | Shares   | Exercise Price | Weighted-Average                         |   |
|---|----------|----------------|--|---|
|   |          |                | Remaining Contractual Term<br>(In Years) | Aggregate Intrinsic Value<br>(In Thousands) |
| Outstanding at January 1, 2018  | 185,328  | \$ 18.97       |  |   |
| Granted   | 51,952   | 38.75          |  |   |
| Exercised   | (2,556 ) | 17.16          |  |   |
| Forfeited or expired  | (3,186 ) | 18.98          |  |   |
| Outstanding at September 30, 2018                                     | 231,538  | \$ 23.43       | 8.22                                     | \$ 3,448                                    |
| Fully vested shares and shares expected to vest at September 30, 2018 | 231,538  | \$ 23.43       | 8.22                                     | \$ 3,448                                    |

|  |        |          |      |          |
|--|--------|----------|------|----------|
| Shares exercisable at September 30, 2018 | 75,550 | \$ 17.73 | 7.69 | \$ 1,547 |
|--|--------|----------|------|----------|

Information related to the stock options for the nine months ended September 30, 2018 and 2017 was as follows:

| (Dollars in thousands, except per share amounts) | Nine Months Ended September 30, |        |
|--|---------------------------------|--------|
|  | 2018                            | 2017   |
| Aggregate intrinsic value of options exercised   | \$59                            | \$243  |
| Cash received from option exercises              | —                               | 281    |
| Tax benefit realized from options exercises      | 12                              | 85     |
| Weighted average fair value of options granted   | \$13.22                         | \$8.71 |

Stock options awarded to employees under the Omnibus Incentive Plan are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant, vest over four years, and have ten year contractual terms. The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. Expected volatilities were determined based on a blend of the Company's historical volatility and historical volatilities of a peer group of companies with a similar size, industry, stage of life cycle, and capital structure. The expected term of the options granted was determined based on the SEC simplified method, which calculates the expected term as the mid-point between the weighted average time to vesting and the contractual term. The risk-free interest rate for the expected term of the options was derived from the Treasury constant maturity yield curve on the valuation date.



## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The fair value of the stock options granted was determined using the following weighted-average assumptions:

|                                 | Nine Months<br>Ended<br>September 30, |               |
|---------------------------------|---------------------------------------|---------------|
|                                 | 2018                                  | 2017          |
| Risk-free interest rate         | 2.85 %                                | 2.11 %        |
| Expected term                   | 6.25<br>years                         | 6.25<br>Years |
| Expected stock price volatility | 28.07 %                               | 29.70 %       |
| Dividend yield                  | —                                     | —             |

As of September 30, 2018, there was \$804,000 of unrecognized compensation cost related to nonvested stock options granted under the Omnibus Incentive Plan. The cost is expected to be recognized over a remaining period of 3.11 years.

## NOTE 14 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

| (Dollars in thousands)                      | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2018                                | 2017       | 2018                               | 2017       |
| <b>Basic</b>                                |                                     |            |                                    |            |
| Net income to common stockholders           | \$8,975                             | \$9,587    | \$33,045                           | \$29,335   |
| Weighted average common shares outstanding  | 26,178,194                          | 19,811,577 | 24,159,543                         | 18,600,009 |
| Basic earnings per common share             | \$0.34                              | \$0.48     | \$1.37                             | \$1.58     |
| <b>Diluted</b>                              |                                     |            |                                    |            |
| Net income to common stockholders           | \$8,975                             | \$9,587    | \$33,045                           | \$29,335   |
| Dilutive effect of preferred stock          | 195                                 | 195        | 578                                | 580        |
| Net income to common stockholders - diluted | \$9,170                             | \$9,782    | \$33,623                           | \$29,915   |
| Weighted average common shares outstanding  | 26,178,194                          | 19,811,577 | 24,159,543                         | 18,600,009 |
| Dilutive effects of:                        |                                     |            |                                    |            |
| Assumed conversion of Preferred A           | 315,773                             | 315,773    | 315,773                            | 315,773    |
| Assumed conversion of Preferred B           | 354,471                             | 354,471    | 354,471                            | 354,471    |
| Assumed exercises of stock warrants         | —                                   | 54,476     | —                                  | 110,089    |
| Assumed exercises of stock options          | 90,320                              | 45,788     | 86,728                             | 42,084     |
| Restricted stock awards                     | 45,796                              | 63,384     | 55,087                             | 65,999     |
| Restricted stock units                      | 7,276                               | —          | 2,706                              | —          |
| Performance stock units                     | —                                   | —          | —                                  | —          |

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|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Average shares and dilutive potential common shares | 26,991,830 | 20,645,469 | 24,974,308 | 19,488,425 |
| Diluted earnings per common share                   | \$0.34     | \$0.47     | \$1.35     | \$1.53     |

Shares that were not considered in computing diluted earnings per common share because they were antidilutive are as follows:

|  | Three Months<br>Ended<br>September 30,<br>2018 |        | Nine Months<br>Ended<br>September 30,<br>2017 |        |
|--|--|--------|---|--------|
| Shares assumed to be converted from Preferred Stock Series A | —  | —      | —   | —      |
| Shares assumed to be converted from Preferred Stock Series B | —  | —      | —   | —      |
| Stock options  | 51,952   | 58,442 | 51,952  | 58,442 |
| Restricted stock awards                                      | 14,513   | —      | 14,513  | —      |
| Restricted stock units                                       | —  | —      | —   | —      |
| Performance stock units                                      | 59,658   | —      | 59,658  | —      |

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## NOTE 15 – BUSINESS SEGMENT INFORMATION

The following table presents the Company's operating segments. The accounting policies of the segments are substantially similar to those described in the "Summary of Significant Accounting Policies" in Note 1 of the Company's 2017 Form 10-K. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Factoring segment based on the Company's prime rate. The provision for loan loss is allocated based on the segment's allowance for loan loss determination. Noninterest income and expense directly attributable to a segment are assigned to it. Taxes are paid on a consolidated basis but not allocated for segment purposes. The Factoring segment includes only factoring originated by TBC. General factoring services not originated through TBC are included in the Banking segment. On March 31, 2017, the Company sold its 100% membership interest in Triumph Capital Advisors, LLC ("TCA") and discontinued fee based asset management services. TCA operations were not material during the year ended December 31, 2017 and are reflected in the Corporate segment, along with the gain on sale of the Company's membership interest in TCA.

(Dollars in thousands)

| Three Months Ended September 30, 2018 | Banking  | Factoring | Corporate   | Consolidated |
|---------------------------------------|----------|-----------|-------------|--------------|
| Total interest income                 | \$43,769 | \$27,420  | \$570       | \$71,759     |
| Intersegment interest allocations     | 6,289    | (6,289 )  | —           | —            |
| Total interest expense                | 8,426    | —         | 1,551       | 9,977        |
| Net interest income (expense)         | 41,632   | 21,131    | (981 )      | 61,782       |
| Provision for loan losses             | 6,774    | 41        | (12 )       | 6,803        |
| Net interest income after provision   | 34,858   | 21,090    | (969 )      | 54,979       |
| Noninterest income                    | 4,991    | 942       | 126         | 6,059        |
| Noninterest expense                   | 33,507   | 12,902    | 2,537       | 48,946       |
| Operating income (loss)               | \$6,342  | \$9,130   | \$ (3,380 ) | \$ 12,092    |

(Dollars in thousands)

| Three Months Ended September 30, 2017 | Banking  | Factoring | Corporate   | Consolidated |
|---------------------------------------|----------|-----------|-------------|--------------|
| Total interest income                 | \$32,973 | \$11,736  | \$428       | \$45,137     |
| Intersegment interest allocations     | 2,193    | (2,193 )  | —           | —            |
| Total interest expense                | 4,294    | —         | 1,331       | 5,625        |
| Net interest income (expense)         | 30,872   | 9,543     | (903 )      | 39,512       |
| Provision for loan losses             | (69 )    | 649       | (8 )        | 572          |
| Net interest income after provision   | 30,941   | 8,894     | (895 )      | 38,940       |
| Noninterest income                    | 3,498    | 774       | (101 )      | 4,171        |
| Noninterest expense                   | 21,984   | 5,600     | 641         | 28,225       |
| Operating income (loss)               | \$12,455 | \$4,068   | \$ (1,637 ) | \$ 14,886    |

(Dollars in thousands)

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| Nine Months Ended September 30, 2018   | Banking   | Factoring | Corporate | Consolidated |
|--|-----------|-----------|-----------|--------------|
| Total interest income                  | \$123,050 | \$62,514  | \$1,562   | \$187,126    |
| Intersegment interest allocations      | 13,377    | (13,377)  | —         | —            |
| Total interest expense                 | 20,421    | —         | 4,536     | 24,957       |
| Net interest income (expense)          | 116,006   | 49,137    | (2,974)   | 162,169      |
| Provision for loan losses              | 10,510    | 3,747     | —         | 14,257       |
| Net interest income after provision    | 105,496   | 45,390    | (2,974)   | 147,912      |
| Gain on sale of subsidiary or division | 1,071     | —         | —         | 1,071        |
| Other noninterest income               | 12,612    | 2,452     | 41        | 15,105       |
| Noninterest expense                    | 86,446    | 30,067    | 3,878     | 120,391      |
| Operating income (loss)                | \$32,733  | \$17,775  | \$(6,811) | \$43,697     |

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands)

| Nine Months Ended September 30, 2017   | Banking  | Factoring | Corporate | Consolidated |
|--|----------|-----------|-----------|--------------|
| Total interest income                  | \$93,204 | \$30,828  | \$975     | \$125,007    |
| Intersegment interest allocations      | 5,211    | (5,211)   | —         | —            |
| Total interest expense                 | 11,177   | —         | 3,942     | 15,119       |
| Net interest income (expense)          | 87,238   | 25,617    | (2,967)   | 109,888      |
| Provision for loan losses              | 7,571    | 2,042     | 84        | 9,697        |
| Net interest income after provision    | 79,667   | 23,575    | (3,051)   | 100,191      |
| Gain on sale of subsidiary or division | —        | —         | 20,860    | 20,860       |
| Other noninterest income               | 10,604   | 2,203     | 2,991     | 15,798       |
| Noninterest expense                    | 65,171   | 16,677    | 8,535     | 90,383       |
| Operating income (loss)                | \$25,100 | \$9,101   | \$12,265  | \$46,466     |

(Dollars in thousands)

| September 30, 2018 | Banking     | Factoring | Corporate | Eliminations  | Consolidated |
|--------------------|-------------|-----------|-----------|---------------|--------------|
| Total assets       | \$4,433,862 | \$659,782 | \$712,971 | \$(1,269,513) | \$4,537,102  |
| Gross loans        | \$3,411,456 | \$579,985 | \$10,952  | \$(490,250)   | \$3,512,143  |

(Dollars in thousands)

| December 31, 2017 | Banking     | Factoring | Corporate | Eliminations | Consolidated |
|-------------------|-------------|-----------|-----------|--------------|--------------|
| Total assets      | \$3,444,322 | \$360,922 | \$504,656 | \$(810,867)  | \$3,499,033  |
| Gross loans       | \$2,784,147 | \$346,293 | \$11,936  | \$(331,520)  | \$2,810,856  |

item 2

## Management's Discussion and Analysis of

## Financial Condition and Results of Operations

This section presents management's perspective on our financial condition and results of operations. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Company's interim consolidated financial statements and the accompanying notes included elsewhere in this Quarterly Report on Form 10-Q and with the consolidated financial statements and accompanying notes and other detailed information appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of our future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. See the "Forward-Looking Statements" section of this discussion for further information on forward-looking statements.

## Overview

We are a financial holding company headquartered in Dallas, Texas and registered under the Bank Holding Company Act. Through our wholly owned bank subsidiary, TBK Bank, we offer traditional banking services as well as commercial finance product lines focused on businesses that require specialized financial solutions. Our banking operations include a full suite of lending and deposit products and services focused on our local market areas. These activities generate a stable source of core deposits and a diverse asset base to support our overall operations. Our commercial finance product lines include factoring, asset based lending, equipment lending, and premium finance products offered on a nationwide basis. These product offerings supplement the asset generation capacity in our community banking markets and enhance the overall yield of our loan portfolio, enabling us to earn attractive risk-adjusted net interest margins. We believe our integrated business model distinguishes us from other banks and non-bank financial services companies in the markets in which we operate. As of September 30, 2018, we had consolidated total assets of \$4.537 billion, total loans held for investment of \$3.512 billion, total deposits of \$3.439 billion and total stockholders' equity of \$616.6 million.

A key element of our strategy is to supplement the asset generation capacity in our community banking markets with commercial finance product lines which are offered on a nationwide basis and which serve to enhance the overall yield of our portfolio. These products include our factoring services, provided principally in the transportation sector, and our asset based lending, equipment finance, and premium finance products. Our aggregate outstanding balances for these products increased \$386.0 million, or 43.0%, to \$1.284 billion as of September 30, 2018, primarily due to organic growth as well as increased factored receivables resulting from the acquisition of Interstate Capital Corporation as discussed below.

The following table sets forth our commercial finance product lines:

|                        | September 30, | December 31, |
|------------------------|---------------|--------------|
| (Dollars in thousands) | 2018          | 2017         |
| Commercial finance     |               |              |
| Equipment              | \$ 323,832    | \$ 254,119   |
| Asset based lending    | 273,096       | 213,471      |
| Premium finance        | 75,293        | 55,520       |

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|                                |              |            |
|--------------------------------|--------------|------------|
| Factored receivables           | 611,285      | 374,410    |
| Total commercial finance loans | \$ 1,283,506 | \$ 897,520 |

Most of our products and services share basic processes and have similar economic characteristics. However, our factoring subsidiary, Triumph Business Capital, operates in a highly specialized niche and earns substantially higher yields on its factored accounts receivable portfolio than our other lending products. This business also has a legacy and structure as a standalone company. We have determined our reportable segments are Banking, Factoring, and Corporate. For the nine months ended September 30, 2018, our Banking segment generated 67% of our total revenue (comprised of interest and noninterest income), our Factoring segment generated 32% of our total revenue, and our Corporate segment generated 1% of our total revenue. On March 31, 2017, we sold our 100% membership interest in Triumph Capital Advisors, LLC (“TCA”) and discontinued fee based asset management services. TCA operations were not material during the year ended December 31, 2017 and are reflected in our Corporate segment, along with the gain on sale of our membership interest in TCA.

### Third Quarter 2018 Overview

Net income available to common stockholders for the three months ended September 30, 2018 was \$9.0 million, or \$0.34 per diluted share, compared to net income available to common stockholders for the three months ended September 30, 2017 of \$9.6 million, or \$0.47 per diluted share. Excluding material gains and expenses related to merger and acquisition related activities, adjusted net income to common stockholders was \$13.5 million, or \$0.51 per diluted share, for the three months ended September 30, 2018. For the three months ended September 30, 2018, our return on average common equity was 5.85% and our return on average assets was 0.90%.

Net income available to common stockholders for the nine months ended September 30, 2018 was \$33.0 million, or \$1.35 per diluted share, compared to net income available to common stockholders for the nine months ended September 30, 2017 of \$29.3 million, or \$1.53 per diluted share. Excluding material gains and expenses related to merger and acquisition related activities, including divestitures, adjusted net income to common stockholders was \$37.5 million, or \$1.53 per diluted share, for the nine months ended September 30, 2018, compared to adjusted net income to common stockholders for the nine months ended September 30, 2017 of \$19.4 million, or \$1.02 per diluted share. For the nine months ended September 30, 2018, our return on average common equity was 8.41% and our return on average assets was 1.21%.

At September 30, 2018, we had total assets of \$4.537 billion, including gross loans of \$3.512 billion, compared to \$3.499 billion of total assets and \$2.811 billion of gross loans at December 31, 2017. Organic loan growth totaled \$282.4 million during the nine months ended September 30, 2018. Our commercial finance product lines increased from \$897.5 million in aggregate as of December 31, 2017 to \$1.284 billion as of September 30, 2018, an increase of 43.0%, and constitute 37% of our total loan portfolio at September 30, 2018.

At September 30, 2018, we had total liabilities of \$3.920 billion, including total deposits of \$3.439 billion, compared to \$3.107 billion of total liabilities and \$2.621 billion of total deposits at December 31, 2017. Deposits increased \$817.7 million during the nine months ended September 30, 2018.

At September 30, 2018, we had total stockholders' equity of \$616.6 million. During the nine months ended September 30, 2018, total stockholders' equity increased \$224.9 million, primarily due to \$192.1 million of net proceeds from the April 12, 2018 common stock offering discussed below and our net income for the period. Capital ratios remained strong with Tier 1 capital and total capital to risk weighted assets ratios of 11.16% and 13.05%, respectively, at September 30, 2018.

### 2018 Items of Note

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

Effective September 8, 2018, we acquired First Bancorp of Durango, Inc. ("FBD") and its two community banking subsidiaries, The First National Bank of Durango and Bank of New Mexico, which were merged into TBK Bank upon closing, in an all-cash transaction for \$134.7 million. On the same date, we acquired Southern Colorado Corp. ("SCC") and its community banking subsidiary, Citizens Bank of Pagosa Springs, which was merged into TBK Bank upon closing, in an all-cash transaction for \$13.3 million. As part of the FBD and SCC acquisitions, we acquired a combined \$287.8 million of loans held for investment, assumed a combined \$674.7 million of deposits, and recorded a combined \$14.1 million of core deposit intangible assets and \$72.1 million of goodwill.

#### Interstate Capital Corporation



On June 2, 2018 we 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 for total consideration of \$180.3 million, which was comprised of \$160.3 million in cash and contingent consideration with an initial fair value of \$20.0 million. As part of the ICC acquisition, we acquired \$131.0 million of factored receivables and recorded \$13.9 million of intangible assets and \$43.0 million of goodwill.

#### Common Stock Offering

On April 12, 2018, we completed an underwritten common stock offering issuing 5.4 million shares of our common stock, including 0.7 million shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares, at \$37.50 per share for total gross proceeds of \$202.7 million. Net proceeds after underwriting discounts and offering expenses were \$192.1 million. A significant portion of the net proceeds of this offering were used to fund the FBD, SCC and ICC acquisitions. Remaining proceeds will be used for general corporate purposes.

### Triumph Healthcare Finance

On January 19, 2018, we entered into an agreement to sell the assets (the “Disposal Group”) of Triumph Healthcare Finance (“THF”) and exit the healthcare asset-based lending line of business. The decision to sell THF was made prior to the end of the fourth quarter of 2017, and at December 31, 2017, the fair value of the Disposal Group exceeded its carrying amount. As a result of this decision, the \$71.4 million carrying amount of the Disposal Group was transferred to assets held for sale as of December 31, 2017. The sale was finalized on March 16, 2018 and resulted in a net pre-tax contribution to earnings for the nine months ended September 30, 2018 of \$1.1 million, or approximately \$0.8 million net of tax.

For further information on the above transactions, see Note 2 – Business Combinations and Divestitures in the accompanying condensed notes to the consolidated financial statements included elsewhere in this report.

### 2017 Items of Note

#### Valley Bancorp, Inc.

Effective December 9, 2017, we acquired Valley Bancorp, Inc. (“Valley”) and its community banking subsidiary, Valley Bank & Trust, which was merged into TBK Bank upon closing, in an all-cash transaction for \$40.1 million. As part of the Valley acquisition, we acquired \$171.2 million of loans, assumed \$293.4 million of deposits and recorded \$6.1 million of core deposit intangible assets and \$10.5 million of goodwill.

#### Independent Bank – Colorado Branches

On October 6, 2017, we, through our subsidiary TBK Bank, completed our acquisition of nine branch locations in Colorado from Independent Bank Group, Inc.’s banking subsidiary Independent Bank (the “Acquired Branches”) for an aggregate deposit premium of approximately \$6.8 million, or 4.2%. As part of the acquisition, we acquired \$95.8 million of loans, assumed \$160.7 million of deposits associated with the branches and recorded \$3.3 million of core deposit intangible assets and \$5.8 million of goodwill.

#### Common Stock Offering

On August 1, 2017, we completed an underwritten common stock offering issuing 2.53 million shares of our common stock, including 0.33 million shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares, at \$27.50 per share for total gross proceeds of \$69.6 million. Net proceeds after underwriting discounts and offering expenses were \$65.5 million. We used a significant portion of the net proceeds of the offering to fund the acquisition of Valley Bancorp, Inc. and for general corporate purposes.

#### Triumph Capital Advisors

On March 31, 2017, we sold our 100% membership interest in Triumph Capital Advisors, LLC (“TCA”). The TCA sale resulted in a net pre-tax contribution to earnings for the three months ended March 31, 2017 of \$15.7 million, or approximately \$10.0 million net of tax. Consideration received included a seller financed loan receivable in the amount of \$10.5 million.

For further information on the above transactions, see Note 2 – Business Combinations and Divestitures in the accompanying condensed notes to the consolidated financial statements included elsewhere in this report.



## Financial Highlights

| (Dollars in thousands, except per share amounts)        | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |   |
|---|-------------------------------------|------------|------------------------------------|------------|---|
|   | 2018                                | 2017       | 2018                               | 2017       |   |
| <b>Income Statement Data:</b>                           |                                     |            |                                    |            |   |
| Interest income   | \$71,759                            | \$45,137   | \$187,126                          | \$125,007  |   |
| 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                     | 54,979                              | 38,940     | 147,912                            | 100,191    |   |
| Gain on sale of subsidiary or division                  | —                                   | —          | 1,071                              | 20,860     |   |
| Other noninterest income                                | 6,059                               | 4,171      | 15,105                             | 15,798     |   |
| Noninterest income                                      | 6,059                               | 4,171      | 16,176                             | 36,658     |   |
| Noninterest expense                                     | 48,946                              | 28,225     | 120,391                            | 90,383     |   |
| Net income before income taxes                          | 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   |   |
| <b>Per Share Data:</b>                                  |                                     |            |                                    |            |   |
| Basic earnings per common share                         | \$0.34                              | \$0.48     | \$1.37                             | \$1.58     |   |
| Diluted earnings per common share                       | \$0.34                              | \$0.47     | \$1.35                             | \$1.53     |   |
| Weighted average shares outstanding - basic             | 26,178,194                          | 19,811,577 | 24,159,543                         | 18,600,009 |   |
| Weighted average shares outstanding - diluted           | 26,991,830                          | 20,645,469 | 24,974,308                         | 19,488,425 |   |
| <b>Adjusted Per Share Data<sup>(1)</sup>:</b>           |                                     |            |                                    |            |   |
| Adjusted diluted earnings per common share              | \$0.51                              | \$0.47     | \$1.53                             | \$1.02     |   |
| Adjusted weighted average shares outstanding - diluted  | 26,991,830                          | 20,645,469 | 24,974,308                         | 19,488,425 |   |
| <b>Performance ratios - Annualized:</b>                 |                                     |            |                                    |            |   |
| Return on average assets                                | 0.90                                | % 1.36     | % 1.21                             | % 1.46     | % |
| Return on average total equity                          | 5.88                                | % 10.71    | % 8.40                             | % 12.44    | % |
| Return on average common equity                         | 5.85                                | % 10.79    | % 8.41                             | % 12.58    | % |
| Return on average tangible common equity <sup>(1)</sup> | 7.57                                | % 12.28    | % 10.27                            | % 14.65    | % |
| Yield on loans  | 8.33                                | % 7.44     | % 8.05                             | % 7.47     | % |
| Adjusted yield on loans <sup>(1)</sup>                  | 8.18                                | % 7.20     | % 7.74                             | % 7.14     | % |
| Cost of interest bearing deposits                       | 1.08                                | % 0.80     | % 0.96                             | % 0.75     | % |
| Cost of total deposits                                  | 0.85                                | % 0.64     | % 0.76                             | % 0.61     | % |
| Cost of total funds                                     | 1.16                                | % 0.90     | % 1.06                             | % 0.84     | % |
| Net interest margin                                     | 6.59                                | % 5.90     | % 6.35                             | % 5.82     | % |
| Adjusted net interest margin <sup>(1)</sup>             | 6.45                                | % 5.69     | % 6.08                             | % 5.54     | % |
| Efficiency ratio  | 72.15                               | % 64.61    | % 67.50                            | % 61.68    | % |
| Adjusted efficiency ratio <sup>(1)</sup>                | 63.49                               | % 64.61    | % 63.98                            | % 67.82    | % |
| Net noninterest expense to average assets               | 4.19                                | % 3.35     | % 3.76                             | % 2.63     | % |

|   |      |   |      |   |      |   |      |   |
|---|------|---|------|---|------|---|------|---|
| Adjusted net noninterest expense to average assets <sup>(1)</sup> | 3.62 | % | 3.35 | % | 3.55 | % | 3.40 | % |
|---|------|---|------|---|------|---|------|---|

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|   | September 30,<br>2018 | December<br>31,<br>2017 |       |   |
|---|-----------------------|-------------------------|-------|---|
| (Dollars in thousands, except per share amounts)          |                       |                         |       |   |
| <b>Balance Sheet Data:</b>                                |                       |                         |       |   |
| Total assets  | \$ 4,537,102          | \$ 3,499,033            |       |   |
| Cash and cash equivalents                                 | 282,409               | 134,129                 |       |   |
| Investment securities                                     | 369,365               | 264,166                 |       |   |
| Loans held for investment, net                            | 3,484,887             | 2,792,108               |       |   |
| Total liabilities   | 3,920,461             | 3,107,335               |       |   |
| Noninterest bearing deposits                              | 697,903               | 564,225                 |       |   |
| Interest bearing deposits                                 | 2,741,146             | 2,057,123               |       |   |
| FHLB advances   | 330,000               | 365,000                 |       |   |
| Subordinated notes  | 48,903                | 48,828                  |       |   |
| Junior subordinated debentures                            | 38,966                | 38,623                  |       |   |
| Total stockholders' equity                                | 616,641               | 391,698                 |       |   |
| Preferred stockholders' equity                            | 9,658                 | 9,658                   |       |   |
| Common stockholders' equity                               | 606,983               | 382,040                 |       |   |
| <b>Per Share Data:</b>                                    |                       |                         |       |   |
| Book value per share                                      | \$ 23.10              | \$ 18.35                |       |   |
| Tangible book value per share <sup>(1)</sup>              | \$ 15.42              | \$ 15.29                |       |   |
| Shares outstanding end of period                          | 26,279,761            | 20,820,445              |       |   |
| <b>Asset Quality ratios<sup>(2)</sup>:</b>                |                       |                         |       |   |
| Past due to total loans                                   | 2.23                  | %                       | 2.33  | % |
| Nonperforming loans to total loans                        | 1.13                  | %                       | 1.38  | % |
| Nonperforming assets to total assets                      | 0.93                  | %                       | 1.39  | % |
| ALLL to nonperforming loans                               | 68.82                 | %                       | 48.41 | % |
| ALLL to total loans                                       | 0.78                  | %                       | 0.67  | % |
| Net charge-offs to average loans <sup>(3)</sup>           | 0.19                  | %                       | 0.28  | % |
| <b>Capital ratios:</b>                                    |                       |                         |       |   |
| Tier 1 capital to average assets                          | 11.75                 | %                       | 11.80 | % |
| Tier 1 capital to risk-weighted assets                    | 11.16                 | %                       | 11.15 | % |
| Common equity Tier 1 capital to risk-weighted assets      | 9.96                  | %                       | 9.70  | % |
| Total capital to risk-weighted assets                     | 13.05                 | %                       | 13.21 | % |
| Total stockholders' equity to total assets                | 13.59                 | %                       | 11.19 | % |
| Tangible common stockholders' equity ratio <sup>(1)</sup> | 9.35                  | %                       | 9.26  | % |

<sup>(1)</sup>The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company's operational performance and to enhance investors' overall understanding of such financial performance. The non-GAAP measures used by the Company include the following:

• "Adjusted diluted earnings per common share" is defined as adjusted net income available to common stockholders divided by adjusted weighted average diluted common shares outstanding. Excluded from net income available to common stockholders are material gains and expenses related to merger and acquisition-related activities, including divestitures, net of tax. In our judgment, the adjustments made to net income available to common stockholders allow management and investors to better assess our performance in relation to our core net income by removing the volatility associated with certain acquisition-related items and other discrete items that are unrelated to our core

business. Weighted average diluted common shares outstanding are adjusted as a result of changes in their dilutive properties given the gain and expense adjustments described herein.

•“Tangible common stockholders’ equity” is common stockholders’ equity less goodwill and other intangible assets.

•“Total tangible assets” is defined as total assets less goodwill and other intangible assets.

•“Tangible book value per share” is defined as tangible common stockholders’ equity divided by total common shares outstanding. This measure is important to investors interested in changes from period-to-period in book value per share exclusive of changes in intangible assets.

•“Tangible common stockholders’ equity ratio” is defined as the ratio of tangible common stockholders’ equity divided by total tangible assets. We believe that this measure is important to many investors in the marketplace who are interested in relative changes from period-to period in common equity and total assets, each exclusive of changes in intangible assets.

•“Return on average tangible common equity” is defined as net income available to common stockholders divided by average tangible common stockholders’ equity.

- “Adjusted efficiency ratio” is defined as noninterest expenses divided by our operating revenue, which is equal to net interest income plus noninterest income. Also excluded are material gains and expenses related to merger and acquisition-related activities, including divestitures. In our judgment, the adjustments made to operating revenue allow management and investors to better assess our performance in relation to our core operating revenue by removing the volatility associated with certain acquisition-related items and other discrete items that are unrelated to our core business.

•“Adjusted net noninterest expense to average total assets” is defined as noninterest expenses net of noninterest income divided by total average assets. Excluded are material gains and expenses related to merger and acquisition-related activities, including divestitures. This metric is used by our management to better assess our operating efficiency.

•“Adjusted yield on loans” is our yield on loans after excluding loan accretion from our acquired loan portfolio. Our management uses this metric to better assess the impact of purchase accounting on our yield on loans, as the effect of loan discount accretion is expected to decrease as the acquired loans roll off of our balance sheet, absent the impact, if any, of future acquisitions.

•“Adjusted net interest margin” is net interest margin after excluding loan accretion from the acquired loan portfolio. Our management uses this metric to better assess the impact of purchase accounting on net interest margin, as the effect of loan discount accretion is expected to decrease as the acquired loans mature or roll off of our balance sheet, absent the impact, if any, of future acquisitions.

(2) Asset quality ratios exclude loans held for sale.

(3) Net charge-offs to average loans ratios are for the nine months ended September 30, 2018 and the year ended December 31, 2017.



## GAAP Reconciliation of Non-GAAP Financial Measures

We believe the non-GAAP financial measures included above provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that our non-GAAP financial measures have a number of limitations. The following reconciliation table provides a more detailed analysis of the non-GAAP financial measures:

| (Dollars in thousands, except per share amounts)               | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2018                                | 2017       | 2018                               | 2017       |
| Net income available to common stockholders                    | \$8,975                             | \$9,587    | \$33,045                           | \$29,335   |
| Transaction costs  | 5,871                               | —          | 6,965                              | 325        |
| Gain on sale of subsidiary                                     | —                                   | —          | (1,071 )                           | (20,860 )  |
| Incremental bonus related to transaction                       | —                                   | —          | —                                  | 4,814      |
| Tax effect of adjustments                                      | (1,392 )                            | —          | (1,401 )                           | 5,754      |
| Adjusted net income available to common stockholders           | \$13,454                            | \$9,587    | \$37,538                           | \$19,368   |
| Dilutive effect of convertible preferred stock                 | 195                                 | 195        | 578                                | 580        |
| Adjusted net income available to common stockholders - diluted | \$13,649                            | \$9,782    | \$38,116                           | \$19,948   |
| Weighted average shares outstanding - diluted                  | 26,991,830                          | 20,645,469 | 24,974,308                         | 19,488,425 |
| Adjusted effects of assumed preferred stock conversion         | —                                   | —          | —                                  | —          |
| Adjusted weighted average shares outstanding - diluted         | 26,991,830                          | 20,645,469 | 24,974,308                         | 19,488,425 |
| Adjusted diluted earnings per common share                     | \$0.51                              | \$0.47     | \$1.53                             | \$1.02     |
| Net income available to common stockholders                    | \$8,975                             | \$9,587    | \$33,045                           | \$29,335   |
| Average tangible common equity                                 | 470,553                             | 309,624    | 430,080                            | 267,633    |
| Return on average tangible common equity                       | 7.57 %                              | 12.28 %    | 10.27 %                            | 14.65 %    |
| Adjusted efficiency ratio:                                     |                                     |            |                                    |            |
| Net interest income  | \$61,782                            | \$39,512   | \$162,169                          | \$109,888  |
| Noninterest income   | 6,059                               | 4,171      | 16,176                             | 36,658     |
| Operating revenue  | 67,841                              | 43,683     | 178,345                            | 146,546    |
| Gain on sale of subsidiary                                     | —                                   | —          | (1,071 )                           | (20,860 )  |
| Adjusted operating revenue                                     | \$67,841                            | \$43,683   | \$177,274                          | \$125,686  |
| Total noninterest expense                                      | \$48,946                            | \$28,225   | \$120,391                          | \$90,383   |
| Transaction costs  | (5,871 )                            | —          | (6,965 )                           | (325 )     |
| Incremental bonus related to transaction                       | —                                   | —          | —                                  | (4,814 )   |
| Adjusted noninterest expense                                   | \$43,075                            | \$28,225   | \$113,426                          | \$85,244   |
| Adjusted efficiency ratio                                      | 63.49 %                             | 64.61 %    | 63.98 %                            | 67.82 %    |
| Adjusted net noninterest expense to average assets ratio:      |                                     |            |                                    |            |
| Total noninterest expense                                      | \$48,946                            | \$28,225   | \$120,391                          | \$90,383   |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Transaction costs  | (5,871 )  | —         | (6,965 )  | (325 )    |
| Incremental bonus related to transaction                 | —         | —         | —         | (4,814 )  |
| Adjusted noninterest expense                             | \$43,075  | \$28,225  | \$113,426 | \$85,244  |
| Total noninterest income                                 | \$6,059   | \$4,171   | \$16,176  | \$36,658  |
| Gain on sale of subsidiary                               | —         | —         | (1,071 )  | (20,860 ) |
| Adjusted noninterest income                              | 6,059     | 4,171     | 15,105    | 15,798    |
| Adjusted net noninterest expenses                        | \$37,016  | \$24,054  | \$98,321  | \$69,446  |
| Average total assets                                     | 4,060,560 | 2,849,170 | 3,702,513 | 2,731,426 |
| Adjusted net noninterest expense to average assets ratio | 3.62 %    | 3.35 %    | 3.55 %    | 3.40 %    |
| Reported yield on loans                                  | 8.33 %    | 7.44 %    | 8.05 %    | 7.47 %    |
| Effect of accretion income on acquired loans             | (0.15 %)  | (0.24 %)  | (0.31 %)  | (0.33 %)  |
| Adjusted yield on loans                                  | 8.18 %    | 7.20 %    | 7.74 %    | 7.14 %    |
| Reported net interest margin                             | 6.59 %    | 5.90 %    | 6.35 %    | 5.82 %    |
| Effect of accretion income on acquired loans             | (0.14 %)  | (0.21 %)  | (0.27 %)  | (0.28 %)  |
| Adjusted net interest margin                             | 6.45 %    | 5.69 %    | 6.08 %    | 5.54 %    |

|  | September 30, | December     |
|--|---------------|--------------|
| (Dollars in thousands, except per share amounts) | 2018          | 31,<br>2017  |
| Total stockholders' equity                       | \$ 616,641    | \$ 391,698   |
| Preferred stock liquidation preference           | (9,658 )      | (9,658 )     |
| Total common stockholders' equity                | 606,983       | 382,040      |
| Goodwill and other intangibles                   | (201,842 )    | (63,778 )    |
| Tangible common stockholders' equity             | \$ 405,141    | \$ 318,262   |
| Common shares outstanding                        | 26,279,761    | 20,820,445   |
| Tangible book value per share                    | \$ 15.42      | \$ 15.29     |
| <br>   |               |              |
| Total assets at end of period                    | \$ 4,537,102  | \$ 3,499,033 |
| Goodwill and other intangibles                   | (201,842 )    | (63,778 )    |
| Tangible assets at period end                    | \$ 4,335,260  | \$ 3,435,255 |
| Tangible common stockholders' equity ratio       | 9.35          | % 9.26 %     |

### Results of Operations

Three months ended September 30, 2018 compared with three months ended September 30, 2017.

#### Net Income

We earned net income of \$9.2 million for the three months ended September 30, 2018 compared to \$9.8 million for the three months ended September 30, 2017, a decrease of \$0.6 million.

The results for the three months ended September 30, 2018 include the results of operations of the assets acquired from FBD and SCC since the September 8, 2018 acquisition date and were impacted by \$5.9 million of transaction costs associated with the acquisition. Excluding the transaction costs, net of taxes, we earned adjusted net income of \$13.6 million for the three months ended September 30, 2018 compared to \$9.8 million for the three months ended September 30, 2017, an increase of \$3.8 million. The adjusted increase was primarily the result of a \$22.3 million increase in net interest income, a \$1.9 million increase in noninterest income, and a \$0.7 million decrease in adjusted income tax expense, offset in part by a \$6.2 million increase in the provision for loan losses and a \$14.9 million increase in adjusted noninterest expense.

Details of the changes in the various components of net income are further discussed below.

#### Net Interest Income

Our operating results depend primarily on our net interest income, which is the difference between interest income on interest earning assets, including loans and securities, and interest expense incurred on interest bearing liabilities, including deposits and other borrowed funds. Interest rate fluctuations, as well as changes in the amount and type of interest earning assets and interest bearing liabilities, combine to affect net interest income. Our net interest income is affected by changes in the amount and mix of interest earning assets and interest bearing liabilities, referred to as a "volume change." It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing liabilities, referred to as a "rate change."



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The following table presents the distribution of average assets, liabilities and equity, as well as interest income and fees earned on average interest earning assets and interest expense paid on average interest bearing liabilities:

| (Dollars in thousands)                             | 2018               |               | 2017                        |          | 2017               |               | 2017                        |          |
|--|--------------------|---------------|-----------------------------|----------|--------------------|---------------|-----------------------------|----------|
|  | Average Balance    | Interest      | Average Rate <sup>(4)</sup> | %        | Average Balance    | Interest      | Average Rate <sup>(4)</sup> | %        |
| <b>Interest earning assets:</b>                    |                    |               |                             |          |                    |               |                             |          |
| Cash and cash equivalents                          | \$156,876          | \$865         | 2.19                        | %        | \$111,364          | \$370         | 1.32                        | %        |
| Taxable securities                                 | 183,238            | 1,207         | 2.61                        | %        | 211,354            | 1,570         | 2.95                        | %        |
| Tax-exempt securities                              | 66,208             | 344           | 2.06                        | %        | 25,174             | 85            | 1.34                        | %        |
| FHLB stock   | 20,984             | 147           | 2.78                        | %        | 14,885             | 51            | 1.36                        | %        |
| Loans <sup>(1)</sup>                               | 3,293,719          | 69,196        | 8.33                        | %        | 2,295,356          | 43,061        | 7.44                        | %        |
| <b>Total interest earning assets</b>               | <b>3,721,025</b>   | <b>71,759</b> | <b>7.65</b>                 | <b>%</b> | <b>2,658,133</b>   | <b>45,137</b> | <b>6.74</b>                 | <b>%</b> |
| <b>Noninterest earning assets:</b>                 |                    |               |                             |          |                    |               |                             |          |
| Cash and cash equivalents                          | 69,875             |               |                             |          | 36,128             |               |                             |          |
| Other noninterest earning assets                   | 269,660            |               |                             |          | 154,909            |               |                             |          |
| <b>Total assets</b>                                | <b>\$4,060,560</b> |               |                             |          | <b>\$2,849,170</b> |               |                             |          |
| <b>Interest bearing liabilities:</b>               |                    |               |                             |          |                    |               |                             |          |
| <b>Deposits:</b>                                   |                    |               |                             |          |                    |               |                             |          |
| Interest bearing demand                            | \$418,226          | \$200         | 0.19                        | %        | \$312,009          | \$137         | 0.17                        | %        |
| Individual retirement accounts                     | 105,774            | 339           | 1.27                        | %        | 98,713             | 309           | 1.24                        | %        |
| Money market                                       | 303,843            | 594           | 0.78                        | %        | 201,462            | 118           | 0.23                        | %        |
| Savings  | 272,230            | 60            | 0.09                        | %        | 167,908            | 20            | 0.05                        | %        |
| Certificates of deposit                            | 793,685            | 3,068         | 1.53                        | %        | 773,075            | 2,381         | 1.22                        | %        |
| Brokered deposits                                  | 384,337            | 1,958         | 2.02                        | %        | 72,094             | 307           | 1.69                        | %        |
| <b>Total deposits</b>                              | <b>2,278,095</b>   | <b>6,219</b>  | <b>1.08</b>                 | <b>%</b> | <b>1,625,261</b>   | <b>3,272</b>  | <b>0.80</b>                 | <b>%</b> |
| Subordinated notes                                 | 48,890             | 837           | 6.79                        | %        | 48,791             | 837           | 6.81                        | %        |
| Junior subordinated debentures                     | 38,905             | 714           | 7.28                        | %        | 32,983             | 495           | 5.95                        | %        |
| Other borrowings                                   | 425,781            | 2,207         | 2.06                        | %        | 365,464            | 1,021         | 1.11                        | %        |
| <b>Total interest bearing liabilities</b>          | <b>2,791,671</b>   | <b>9,977</b>  | <b>1.42</b>                 | <b>%</b> | <b>2,072,499</b>   | <b>5,625</b>  | <b>1.08</b>                 | <b>%</b> |
| <b>Noninterest bearing liabilities and equity:</b> |                    |               |                             |          |                    |               |                             |          |
| Noninterest bearing demand deposits                | 608,245            |               |                             |          | 398,774            |               |                             |          |
| Other liabilities                                  | 41,961             |               |                             |          | 15,698             |               |                             |          |
| <b>Total equity</b>                                | <b>618,683</b>     |               |                             |          | <b>362,199</b>     |               |                             |          |
| <b>Total liabilities and equity</b>                | <b>\$4,060,560</b> |               |                             |          | <b>\$2,849,170</b> |               |                             |          |
| Net interest income                                |                    | \$61,782      |                             |          |                    | \$39,512      |                             |          |
| Interest spread <sup>(2)</sup>                     |                    |               | 6.23                        | %        |                    |               | 5.66                        | %        |
| Net interest margin <sup>(3)</sup>                 |                    |               | 6.59                        | %        |                    |               | 5.90                        | %        |

(1) Balance totals include respective nonaccrual assets.

(2) Net interest spread is the yield on average interest earning assets less the rate on interest bearing liabilities.

(3) Net interest margin is the ratio of net interest income to average interest earning assets.

(4) Ratios have been annualized.

The following table presents loan yields earned on our community banking and commercial finance loan portfolios:

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| (Dollars in thousands)     | Three Months Ended |             |       |   |
|----------------------------|--------------------|-------------|-------|---|
|                            | September 30,      |             |       |   |
|                            | 2018               | 2017        |       |   |
| Average community banking  | \$2,039,624        | \$1,463,401 |       |   |
| Average commercial finance | 1,254,095          | 831,955     |       |   |
| Average total loans        | \$3,293,719        | \$2,295,356 |       |   |
| Community banking yield    | 5.68               | %           | 5.60  | % |
| Commercial finance yield   | 12.66              | %           | 10.62 | % |
| Total loan yield           | 8.33               | %           | 7.44  | % |

We earned net interest income of \$61.8 million for the three months ended September 30, 2018 compared to \$39.5 million for the three months ended September 30, 2017, an increase of \$22.3 million, or 56.5%, primarily driven by the following factors.

Interest income increased \$26.6 million, or 58.9%, as a result of an increase in average interest earning assets of \$1,063 million, or 40.0%, which was attributable to the impact of the FBD and SCC acquisitions which contributed \$287.8 million of loans and \$270.7 million of securities. The increase is also attributable to growth in our factored receivable operations as a result of the ICC acquisition and organic factored receivables growth. Additionally, interest income increased as a result of the Valley and Acquired Branch acquisitions which contributed \$267.0 million of loans and \$97.7 million of securities during the fourth quarter of 2017 and organic loan growth. The average balance of our higher yielding commercial finance loans increased \$422.1 million, or 50.7%, from \$832.0 million for the three months ended September 30, 2017 to \$1.254 billion for the three months ended September 30, 2018 as a result of the ICC acquisition and the continued execution of our growth strategy for such products. Our average mortgage warehouse lending balance was \$289.7 million for the three months ended September 30, 2018 compared to \$177.8 million for the three months ended September 30, 2017. We also experienced increased average balances in our other community banking lending products, including commercial real estate and general commercial and industrial loans, due to organic growth period over period.

Interest expense increased \$4.4 million, or 77.4%, as a result of growth in customer deposits and other borrowings as well as higher average rates. Average total interest bearing deposits increased \$652.8 million 40.2%, primarily due to \$674.7 million of customer deposits assumed in the FBD and SCC acquisitions and \$454.1 million of customer deposits assumed in the Valley and Acquired Branches acquisitions. Excluding the acquired customer deposits, we also experienced growth in our certificates of deposit and brokered deposits as these higher cost deposit products were used to fund our growth period over period. In addition, our use of other interest bearing borrowings, consisting primarily of FHLB advances, was also increased to fund our growth however, our outstanding balance of FHLB advances at period end decreased period over period.

Net interest margin increased to 6.59% for the three months ended September 30, 2018 from 5.90% for the three months ended September 30, 2017, an increase of 69 basis points or 11.7%.

The increase in our net interest margin primarily resulted from an increase in yields on our interest earning assets. Our average yield on interest earning assets increased 91 basis points to 7.65% for the three months ended September 30, 2018 from 6.74% for the three months ended September 30, 2017, primarily due to an overall change in the mix within our loan portfolio period over period. Our higher yielding average commercial finance products as a percentage of the total loan portfolio increased from 36.2% for the three months ended September 30, 2017 to 38.1% for the three months ended September 30, 2018 and, average factored receivables as a percentage of the total commercial finance portfolio increased from 36.4% at September 30, 2017 to 47.7% at September 30, 2018 contributing to the overall increase in yield on our interest earning assets. In addition, our transportation factoring balances, which generate a higher yield than our non-transportation factoring balances, increased as a percentage of the overall factoring portfolio to 78% at September 30, 2018 compared to 77% at September 30, 2017.

A component of the yield on our loan portfolio consists of discount accretion on the portfolios acquired in connection with our acquisitions. The aggregate increased yield on our loan portfolio attributable to the accretion of purchase discounts associated with our acquisitions was 15 basis points for the three months ended September 30, 2018 and 24 basis points for the three months ended September 30, 2017. Excluding the impact of this discount accretion, the adjusted yield on our loan portfolio was 8.18% and 7.20% for the three months ended September 30, 2018 and 2017, respectively. Subject to future acquisitions, we anticipate that the contribution of this discount accretion to our interest income will continue to decline over time, but we expect that any resulting decreases in aggregate yield on our loan portfolio will be offset in part by continued growth in our higher yielding specialized commercial finance product

lines.

Also impacting our net interest margin was an increase in our average cost of interest bearing liabilities of 34 basis points. This increase was caused by an increased use of higher rate certificates of deposit and brokered deposits to fund our growth period over period, and higher rates on short term and floating rate FHLB advances as a result of higher interest rates in the macro economy. This increase was partially offset by a change in the mix of our interest bearing deposits resulting from lower cost customer deposits assumed in the FBD, SCC, Valley and Acquired Branches acquisitions.

Our adjusted net interest margin, which excludes the impact of the acquired loan discount accretion described above, was 6.45% and 5.69% for the three months ended September 30, 2018 and 2017, respectively.



The following table shows the effects changes in average balances (volume) and average interest rates (rate) had on the interest earned in our interest earning assets and the interest incurred on our interest bearing liabilities:

| (Dollars in thousands)               | Three Months Ended<br>September 30, 2018 vs.<br>2017<br>Increase<br>(Decrease) Due<br>to: |                 |                 |
|--------------------------------------|---|-----------------|-----------------|
|                                      | Rate  | Volume          | Net<br>Increase |
| <b>Interest earning assets:</b>      |   |                 |                 |
| Cash and cash equivalents            | \$244   | \$251           | \$495           |
| Taxable securities                   | (178 )  | (185 )          | (363 )          |
| Tax-exempt securities                | 46  | 213             | 259             |
| FHLB stock                           | 53  | 43              | 96              |
| Loans                                | 5,161   | 20,974          | 26,135          |
| <b>Total interest income</b>         | <b>5,326</b>  | <b>21,296</b>   | <b>26,622</b>   |
| <b>Interest bearing liabilities:</b> |   |                 |                 |
| Interest bearing demand              | 12  | 51              | 63              |
| Individual retirement accounts       | 7   | 23              | 30              |
| Money market                         | 276   | 200             | 476             |
| Savings                              | 17  | 23              | 40              |
| Certificates of deposit              | 607   | 80              | 687             |
| Brokered deposits                    | 60  | 1,591           | 1,651           |
| <b>Total deposits</b>                | <b>979</b>  | <b>1,968</b>    | <b>2,947</b>    |
| Subordinated notes                   | (2 )  | 2               | —               |
| Junior subordinated debentures       | 110   | 109             | 219             |
| Other borrowings                     | 873   | 313             | 1,186           |
| <b>Total interest expense</b>        | <b>1,960</b>  | <b>2,392</b>    | <b>4,352</b>    |
| <b>Change in net interest income</b> | <b>\$3,366</b>  | <b>\$18,904</b> | <b>\$22,270</b> |

#### Provision for Loan Losses

The provision for loan losses is the amount of expense that, based on our judgment, is required to maintain the allowance for loan and lease losses (“ALLL”) at an appropriate level to absorb estimated incurred losses in the loan portfolio at the balance sheet date. The determination of the amount of the allowance is complex and involves a high degree of judgment and subjectivity.

Our ALLL was \$27.3 million as of September 30, 2018 versus \$18.7 million as of December 31, 2017, representing an ALLL to total loans ratio of 0.78% and 0.67% respectively.

Our provision for loan losses was \$6.8 million for the three months ended September 30, 2018 compared to \$0.6 million for the three months ended September 30, 2017, an increase of \$6.2 million, or 1033.3%.

The increase in provision for loan loss was the result of increased net charge-offs, an increased loss factor on our asset based lending portfolio, which is included in our commercial loan portfolio, and increased net new specific reserves. Net charge-offs increased by \$4.1 million from \$2 thousand for the three months ended September 30, 2017 to \$4.1

million for the three months ended September 30, 2018. Approximately \$0.7 million and \$0.3 million of the charge-offs for the three months ended September 30, 2018 and 2017, respectively, had specific reserves previously recorded. We recorded net new specific reserves of \$0.5 million during the three months ended September 30, 2018 compared to net specific reserve releases of \$0.1 million recorded during the three months ended September 30, 2017.

We charged-off approximately \$4.0 million on a single asset based lending relationship during the three months ended September 30, 2018. The loss resulted from fraudulent conduct believed to be perpetrated by one or more employees of the borrower. The primary cause of the loss was the borrower's submission of false borrowing base certificates and supporting documentation that resulted in advances in excess of available collateral. A notice of default has been issued to the borrower and the facility is in the process of liquidation. Approximately \$0.7 million of the charge off had specific reserves previously recorded at the beginning of the three months period ended September 30, 2018. In addition, the charge-off resulted in an increase in the estimate of the allowance for loan loss reserves recorded against the remaining asset based lending portfolio in an amount of \$2.5 million as a result of higher loss factors being incorporated into the Company's allowance for loan loss reserve methodology for the period ended September 30, 2018.

Excluding the aforementioned impact of the FBD and SCC acquisitions, during the three months ended September 30, 2018 outstanding loans increased \$27.8 million from June 30, 2018. During the three months ended September 30, 2017, outstanding loans increased \$130.4 million from June 30, 2017. The smaller increase in loan balances within the three months ended September 30, 2018 partially offset the increase in our provision for loan losses in the current period however, this benefit was offset by a change in the composition of our loan portfolio.

#### Noninterest Income

The following table presents our major categories of noninterest income:

| (Dollars in thousands)                            | Three Months Ended September 30, |         |           |           |
|---|----------------------------------|---------|-----------|-----------|
|   | 2018                             | 2017    | \$ Change | % Change  |
| Service charges on deposits                       | \$1,412                          | \$1,046 | \$366     | 35.0 %    |
| Card income                                       | 1,877                            | 956     | 921       | 96.3 %    |
| Net OREO gains (losses) and valuation adjustments | 65                               | 15      | 50        | 333.3 %   |
| Net gains (losses) on sale of securities          | —                                | 35      | (35 )     | (100.0 %) |
| Fee income  | 1,593                            | 625     | 968       | 154.9 %   |
| Insurance commissions                             | 1,113                            | 826     | 287       | 34.7 %    |
| Other   | (1 )                             | 668     | (669 )    | (100.1 %) |
| Total noninterest income                          | \$6,059                          | \$4,171 | \$1,888   | 45.3 %    |

Noninterest income increased \$1.9 million, or 45.3%, primarily due to increases in service charges on deposits, card income and fee income. Changes in selected components of noninterest income in the above table are discussed below.

**Service charges on deposits.** Service charges on deposit accounts, including overdraft and non-sufficient funds fees, increased \$0.4 million, or 35.0%, primarily due to additional service charges associated with the increase in customer deposits due to the Valley and Acquired Branches acquisitions and to a lesser extent, the FBD and SCC acquisitions.

**Card Income.** Debit and credit card income increased \$0.9 million, or 96.3%, primarily due to additional customer debit and credit card activity associated with the increase in issued cards resulting from the Valley and Acquired Branches acquisitions and to a lesser extent, the FBD and SCC acquisitions. In addition to increased activity, we received a \$0.4 million incentive payment from our debit card provider for the achievement of certain growth goals. The incentive payment was received during the third quarter of 2018 is not expected to continue in future periods.

**Fee income.** Fee income increased \$1.0 million, or 154.9%, primarily due to increased check and wire fees resulting from the Valley and Acquired Branches acquisitions and to a lesser extent, the FBD and SCC acquisitions.

**Other.** Other noninterest income, including income for check cashing and wire transfer fees, income associated with trust activities, and bank-owned life insurance, decreased \$0.7 million, or 100.1%. The decrease was driven by a \$0.5 million increase on our liability for contingent consideration due to the sellers of ICC upon remeasurement of the liability at September 30, 2018. The contingent payment is due during the fourth quarter of 2020. The decrease was also driven by a write-down on signage and other assets of \$0.3 million related to rebranding of Triumph Community Bank to our standardized TBK Bank brand during the three months ended September 30, 2018. There were no other significant increases or decreases in the components of other noninterest income period over period.

#### Noninterest Expense

The following table presents our major categories of noninterest expense:

| (Dollars in thousands) | Three Months Ended September 30, |      |           |          |
|------------------------|----------------------------------|------|-----------|----------|
|                        | 2018                             | 2017 | \$ Change | % Change |

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|   |          |          |          |       |   |
|---|----------|----------|----------|-------|---|
| Salaries and employee benefits                  | \$24,695 | \$16,717 | \$7,978  | 47.7  | % |
| Occupancy, furniture and equipment              | 3,553    | 2,398    | 1,155    | 48.2  | % |
| FDIC insurance and other regulatory assessments | 363      | 294      | 69       | 23.5  | % |
| Professional fees                               | 3,384    | 1,465    | 1,919    | 131.0 | % |
| Amortization of intangible assets               | 2,064    | 870      | 1,194    | 137.2 | % |
| Advertising and promotion                       | 1,609    | 804      | 805      | 100.1 | % |
| Communications and technology                   | 7,252    | 2,145    | 5,107    | 238.1 | % |
| Travel and entertainment                        | 1,168    | 543      | 625      | 115.1 | % |
| Other   | 4,858    | 2,989    | 1,869    | 62.5  | % |
| Total noninterest expense                       | \$48,946 | \$28,225 | \$20,721 | 73.4  | % |

Noninterest expense increased \$20.7 million, or 73.4%. Noninterest expense for the three months ended September 30, 2018 was impacted by \$5.9 million of transaction costs associated with the FBD and SCC acquisitions. There were no comparable transaction costs during the three months ended September 30, 2017. Excluding the FBD and SCC transaction costs, we incurred adjusted noninterest expense of \$43.0 million for the three months ended September 30, 2018, resulting in an adjusted net increase in noninterest expense of \$14.8 million period over period. Details of the more significant changes in the various components of noninterest expense are further discussed below.

**Salaries and Employee Benefits.** Salaries and employee benefits expenses increased \$8.0 million, or 47.7%, which is primarily due to a significant increase in the total size of our workforce between these periods as our average full-time equivalent employees were 1,023.3 and 713.0 for the three months ended September 30, 2018 and 2017, respectively. Sources of this increased headcount were primarily employees added through the ICC, Valley and Acquired Branches acquisitions and to a lesser extent, employees added through the FBD and SCC acquisitions. In addition, employees were hired to support growth in our commercial finance product lines and other strategic initiatives. Other factors contributing to the increase in salaries and employee benefits include merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense.

**Occupancy, Furniture and Equipment.** Occupancy, furniture and equipment expenses increased \$1.2 million, or 48.2%, primarily due to expenses associated with the infrastructure and facilities added through the ICC, Valley and Acquired Branches acquisitions and to a lesser extent, infrastructure and facilities added through the FBD and SCC acquisitions.

**Professional Fees.** Professional fees, which are primarily comprised of external audit, tax, consulting, and legal fees, increased \$1.9 million, or 131.0%, primarily due to \$1.4 million of professional fees incurred in connection with the FBD and SCC acquisitions during the quarter.

**Amortization of intangible assets.** Amortization of intangible assets increased \$1.2 million, or 137.2%, primarily due to the addition of intangible assets resulting from the FBD, SCC, ICC, Valley and Acquired Branch acquisitions.

**Advertising and promotion.** Advertising and promotion expenses increased \$0.8 million, or 100.1%, primarily due to advertising and brand-awareness activities in connection with the FBD and SCC acquisitions.

**Communications and Technology.** Communications and technology expenses increased \$5.1 million, or 238.1%, primarily as a result of \$3.1 million in information technology deconversion and termination fees resulting from our acquisition of FBD and SCC. The remaining increase is a result of increased usage and transaction volumes resulting from the ICC, Valley and Acquired Branch acquisitions and to a lesser extent, increased usage and transaction volumes resulting from the FBD and SCC acquisitions. The increase is also a result of growth in our organic operations.

**Travel and entertainment.** Travel and entertainment expenses increased \$0.6 million, or 115.1%, primarily due to additional travel required to efficiently integrate the recent acquisitions as well as additional travel in the normal course of business.

**Other.** Other noninterest expense includes loan-related expenses, training and recruiting, postage, insurance, and subscription services. Other noninterest expense increased \$1.9 million or 62.5% primarily due to an increase in software amortization cost resulting from our investments in systems and infrastructure to support the growth in our operations. There were no other significant increases or decreases in the components of other noninterest expense period over period.

#### Income Taxes

The amount of income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income and the effect of changes in valuation allowances maintained against deferred tax benefits.

Income tax expense decreased \$2.2 million, or 43.1%, from \$5.1 million for the three months ended September 30, 2017 to \$2.9 million for the three months ended September 30, 2018. The effective tax rate decreased from 34% for the three months ended September 30, 2017 to 24% for the three months ended September 30, 2018, primarily due to the enactment of the Tax Cuts and Jobs Act (the "Tax Act") on December 22, 2017 which lowered our federal statutory

tax rate, effective on January 1, 2018, and resulted in significant modifications to existing law.

In regard to the Tax Act, 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.

## Operating Segment Results

Our reportable segments are Banking, Factoring, and Corporate, which have been determined based upon their business processes and economic characteristics. This determination also gave consideration to the structure and management of various product lines. The Banking segment includes the operations of TBK Bank. Our Banking segment derives its revenue principally from investments in interest earning assets as well as noninterest income typical for the banking industry. The Banking segment also includes certain factored receivables which are purchased by TBK Bank. The Factoring segment includes the operations of Triumph Business Capital with revenue derived from factoring services. Corporate includes holding company financing and investment activities, asset management fees associated with TCA prior to its sale on March 31, 2017, and management and administrative expenses to support the overall operations of the Company.

Reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. The accounting policies of the segments are substantially similar to those described in the "Summary of Significant Accounting Policies" in Note 1 of the Company's 2017 Form 10-K. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Factoring segment based on the Company's prime rate. The provision for loan loss is allocated based on the segment's ALLL determination. Noninterest income and expense directly attributable to a segment are assigned accordingly. Taxes are paid on a consolidated basis and are not allocated for segment purposes.

The following tables present our primary operating results for our operating segments:

(Dollars in thousands)

| Three Months Ended September 30, 2018 | Banking  | Factoring | Corporate   | Consolidated |
|---------------------------------------|----------|-----------|-------------|--------------|
| Total interest income                 | \$43,769 | \$27,420  | \$570       | \$71,759     |
| Intersegment interest allocations     | 6,289    | (6,289 )  | —           | —            |
| Total interest expense                | 8,426    | —         | 1,551       | 9,977        |
| Net interest income (expense)         | 41,632   | 21,131    | (981 )      | 61,782       |
| Provision for loan losses             | 6,774    | 41        | (12 )       | 6,803        |
| Net interest income after provision   | 34,858   | 21,090    | (969 )      | 54,979       |
| Noninterest income                    | 4,991    | 942       | 126         | 6,059        |
| Noninterest expense                   | 33,507   | 12,902    | 2,537       | 48,946       |
| Operating income (loss)               | \$6,342  | \$9,130   | \$ (3,380 ) | \$ 12,092    |

(Dollars in thousands)

| Three Months Ended September 30, 2017 | Banking  | Factoring | Corporate | Consolidated |
|---------------------------------------|----------|-----------|-----------|--------------|
| Total interest income                 | \$32,973 | \$11,736  | \$428     | \$45,137     |
| Intersegment interest allocations     | 2,193    | (2,193 )  | —         | —            |
| Total interest expense                | 4,294    | —         | 1,331     | 5,625        |
| Net interest income (expense)         | 30,872   | 9,543     | (903 )    | 39,512       |
| Provision for loan losses             | (69 )    | 649       | (8 )      | 572          |
| Net interest income after provision   | 30,941   | 8,894     | (895 )    | 38,940       |
| Noninterest income                    | 3,498    | 774       | (101 )    | 4,171        |

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|                         |          |         |           |          |
|-------------------------|----------|---------|-----------|----------|
| Noninterest expense     | 21,984   | 5,600   | 641       | 28,225   |
| Operating income (loss) | \$12,455 | \$4,068 | \$(1,637) | \$14,886 |

(Dollars in thousands)

| September 30, 2018 | Banking     | Factoring | Corporate | Eliminations  | Consolidated |
|--------------------|-------------|-----------|-----------|---------------|--------------|
| Total assets       | \$4,433,862 | \$659,782 | \$712,971 | \$(1,269,513) | \$4,537,102  |
| Gross loans        | \$3,411,456 | \$579,985 | \$10,952  | \$(490,250)   | \$3,512,143  |

(Dollars in thousands)

| December 31, 2017 | Banking     | Factoring | Corporate | Eliminations | Consolidated |
|-------------------|-------------|-----------|-----------|--------------|--------------|
| Total assets      | \$3,444,322 | \$360,922 | \$504,656 | \$(810,867)  | \$3,499,033  |
| Gross loans       | \$2,784,147 | \$346,293 | \$11,936  | \$(331,520)  | \$2,810,856  |



## Banking

| (Dollars in thousands)                        | Three Months Ended<br>September 30, |          |              |             |
|---|-------------------------------------|----------|--------------|-------------|
|   | 2018                                | 2017     | \$<br>Change | %<br>Change |
| Banking                                       |                                     |          |              |             |
| Total interest income                         | \$43,769                            | \$32,973 | \$10,796     | 32.7 %      |
| Intersegment interest allocations             | 6,289                               | 2,193    | 4,096        | 186.8 %     |
| Total interest expense                        | 8,426                               | 4,294    | 4,132        | 96.2 %      |
| Net interest income (expense)                 | 41,632                              | 30,872   | 10,760       | 34.9 %      |
| Provision for loan losses                     | 6,774                               | (69 )    | 6,843        | 9917.4 %    |
| Net interest income (expense) after provision | 34,858                              | 30,941   | 3,917        | 12.7 %      |
| Noninterest income                            | 4,991                               | 3,498    | 1,493        | 42.7 %      |
| Noninterest expense                           | 33,507                              | 21,984   | 11,523       | 52.4 %      |
| Operating income (loss)                       | \$6,342                             | \$12,455 | \$(6,113 )   | (49.1 %)    |

Our Banking segment's operating income decreased \$6.1 million, or 49.1%.

Interest income increased primarily as a result of increases in the average balances of our interest earning assets, primarily loans, which was attributable to the impact of the FBD and SCC acquisitions which contributed \$287.8 million of loans and \$270.7 million of securities. Additionally, interest income increased as a result of the Valley and Acquired Branch acquisitions which contributed \$267.0 million of loans and \$97.7 million of securities and organic loan growth. Average loans in our Banking segment increased 45.2% from \$2.208 billion for the three months ended September 30, 2017 to \$3.206 billion for the three months ended September 30, 2018.

Interest expense increased primarily as a result of growth in average customer deposits and other borrowings due to \$674.7 million of customer deposits assumed in the FBD and SCC acquisitions as well as \$454.1 million of customer deposits assumed in the Valley and Acquired Branches acquisitions. Excluding the acquired customer deposits, we also experienced growth in our certificates of deposit and brokered deposits as these higher cost deposit products were used to fund our growth period over period. In addition, our use of other interest bearing borrowings, consisting primarily of FHLB advances, was also increased to fund our growth however, our outstanding balance of FHLB advances at period end decreased period over period. We also experienced increased rates across several of our interest bearing borrowings.

The increase in provision for loan loss was the result of an increase in net charge-offs at our Banking segment. Net charge-offs increased by \$4.0 million from a net recovery of \$0.1 million for the three months ended September 30, 2017 to \$3.9 million for the three months ended September 30, 2018 at our Banking segment. Approximately \$0.7 million and \$0.3 million of the charge-offs for the three months ended September 30, 2018 and 2017, respectively, had specific reserves previously recorded. Also impacting the Banking segment provision for loan loss was a \$4.0 million charge-off of an asset based lending relationship which resulted in an increase in the estimate of the allowance for loan loss reserves recorded against the remaining asset based lending portfolio in an amount of \$2.5 million as a result of higher loss factors being incorporated into the Company's allowance for loan loss reserve methodology for the period ended September 30, 2018. Refer to the previous Provision for Loan Loss discussion for further details regarding the charge-off. We recorded net new specific reserves at our Banking segment of \$0.1 million during the three months ended September 30, 2018 compared to net specific reserve releases of \$0.1 million recorded during the three months ended September 30, 2017. Additionally, loans in our Banking segment grew at a slower pace for the nine months ended September 30, 2018 compared to the same period in 2017 which, when combined with changes in the mix of our portfolio and non-asset based lending-related loss factors used to calculate the ALLL, contributed to a slight offset of the increased provision for loan loss.

Noninterest income increased primarily due to additional service charges and card income associated with the increase in customer deposit and credit/debit card accounts acquired in the FBD, SCC, Valley and Acquired Branches acquisitions. Noninterest income for our Banking Segment includes \$0.4 million incentive payment from our debit card provider for the achievement of certain growth goals during the three months ended September 30, 2018. The bonus payment is not expected to continue in future periods. It also includes a write-down on signage and other assets of \$0.3 million related to rebranding of Triumph Community Bank to our standardized TBK Bank brand during the three months ended September 30, 2018. In addition, other sources of noninterest income, such as check cashing fees and wire transfer fees increased slightly due to incremental transaction volumes associated with the acquisitions.

For the three months ended September 30, 2018 noninterest expense at our Banking segment includes \$4.6 million of transaction costs as well as increased intangible amortization as a result of the FBD and SCC acquisitions with no comparable expenses for the three months ended September 30, 2017. Additionally, noninterest expense increased due to incremental costs associated with the growth in our Banking segment personnel and infrastructure in conjunction with our acquisitions of Valley and the Acquired Branches and to a lesser extent, our acquisitions of FBD and SCC, as well as personnel, facilities and infrastructure to support the continued organic growth in our lending operations. In addition, increases due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense contributed to the increase.

Factoring

| (Dollars in thousands)                        | Three Months Ended<br>September 30, |          |              |             |
|---|-------------------------------------|----------|--------------|-------------|
|   | 2018                                | 2017     | \$<br>Change | %<br>Change |
| Factoring                                     |                                     |          |              |             |
| Total interest income                         | \$27,420                            | \$11,736 | \$15,684     | 133.6 %     |
| Intersegment interest allocations             | (6,289 )                            | (2,193 ) | (4,096 )     | 186.8 %     |
| Total interest expense                        | —                                   | —        | —            | —           |
| Net interest income (expense)                 | 21,131                              | 9,543    | 11,588       | 121.4 %     |
| Provision for loan losses                     | 41                                  | 649      | (608 )       | (93.7 %)    |
| Net interest income (expense) after provision | 21,090                              | 8,894    | 12,196       | 137.1 %     |
| Noninterest income                            | 942                                 | 774      | 168          | 21.7 %      |
| Noninterest expense                           | 12,902                              | 5,600    | 7,302        | 130.4 %     |
| Operating income (loss)                       | \$9,130                             | \$4,068  | \$5,062      | 124.4 %     |

|   | Three Months Ended<br>September 30, |               |
|---|-------------------------------------|---------------|
|   | 2018                                | 2017          |
| Factored receivable period end balance              | \$579,985,000                       | \$315,742,000 |
| Yield on average receivable balance                 | 18.96                               | % 16.64 %     |
| Rolling twelve quarter annual charge-off rate       | 0.38                                | % 0.44 %      |
| Factored receivables - transportation concentration | 83                                  | % 84 %        |
| Interest income, including fees                     | \$27,420,000                        | \$11,736,000  |
| Non-interest income                                 | 942,000                             | 774,000       |
| Factored receivable total revenue                   | 28,362,000                          | 12,510,000    |
| Average net funds employed                          | 525,499,000                         | 260,384,000   |
| Yield on average net funds employed                 | 21.41                               | % 19.06 %     |
| Accounts receivable purchased                       | \$1,503,049,000                     | \$732,406,000 |
| Number of invoices purchased                        | 836,771                             | 476,370       |
| Average invoice size                                | \$1,796                             | \$1,537       |
| Average invoice size - transportation               | \$1,666                             | \$1,486       |
| Average invoice size - non-transportation           | \$3,267                             | \$1,965       |
| Net new clients                                     | 422                                 | 235           |
| Period end clients                                  | 5,932                               | 2,925         |

Our Factoring segment's operating income increased \$5.1 million, or 124.4%.

Our average invoice size increased 16.9% from \$1,537 for the three months ended September 30, 2017 to \$1,796 for the three months ended September 30, 2018, and the number of invoices purchased increased 75.7% period over period. At September 30, 2018, Triumph Business Capital had 86 clients utilizing the TriumphPay platform. For the quarter ended September 30, 2018, TriumphPay processed 65,535 invoices paying 16,125 distinct carriers a total of \$95.8 million.

Net interest income increased due to a 101.8% increase in overall average net funds employed in the third quarter of 2018 compared to the third quarter of 2017. Net funds employed represent factored receivable balances net of customer reserves which we hold 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 our consolidated balance sheets. The increase in NFE was the result of a full quarter impact of the ICC acquisition as well as organic growth in the factored receivables portfolio. In addition to increased average net funds employed, yield on average net funds employed increased period over period as a result of an increased average invoice size. Our transportation factoring balances, which typically generate a higher yield than our non-transportation factoring balances, as a percentage of the overall Factoring segment portfolio decreased from 84% on September 30, 2017 to 83% on September 30, 2018.

The decrease in provision for loan losses was primarily the result of lower growth in the ending balance of the factored receivables portfolio during the three months ended September 30, 2018 compared to the same period in 2017. The ending balance of the factored receivables portfolio at our Factoring segment grew \$2.4 million during the three months ended September 30, 2018 compared to ending balance growth of \$47.0 million over the same time period in 2017. We experienced higher total net charge-offs of \$0.2 million in the three months ended September 30, 2018 compared to \$0.1 million for the same period in 2017. We recorded net new allowances on specific at-risk balances at our Factoring segment of \$0.4 million during the three months ended September 30, 2018 with no significant net new allowances on specific at-risk balances during the three months ended September 30, 2017.

The increase in noninterest income and noninterest expense was driven primarily by increased personnel, operating, and technology costs incurred in connection with the ICC acquisition and growth in our factoring portfolio, particularly the increase in the number of clients and number of invoices processed period over period.

#### Corporate

| (Dollars in thousands)                        | Three Months Ended |           |           |          |
|---|--------------------|-----------|-----------|----------|
|   | September 30,      |           | \$        | %        |
| Corporate                                     | 2018               | 2017      | Change    | Change   |
| Total interest income                         | \$570              | \$428     | \$142     | 33.2 %   |
| Intersegment interest allocations             | —                  | —         | —         | —        |
| Total interest expense                        | 1,551              | 1,331     | 220       | 16.5 %   |
| Net interest income (expense)                 | (981 )             | (903 )    | (78 )     | 8.6 %    |
| Provision for loan losses                     | (12 )              | (8 )      | (4 )      | (50.0 %) |
| Net interest income (expense) after provision | (969 )             | (895 )    | (74 )     | 8.3 %    |
| Noninterest income                            | 126                | (101 )    | 227       | 224.8 %  |
| Noninterest expense                           | 2,537              | 641       | 1,896     | 295.8 %  |
| Operating income (loss)                       | \$(3,380)          | \$(1,637) | \$(1,743) | 106.5 %  |

The Corporate segment's operating loss increased primarily due to \$1.3 million of FBD and SCC-related transaction costs recorded during the three months ended September 30, 2018. There were no other significant fluctuations in accounts in our Corporate segment period over period.

#### Results of Operations

Nine months ended September 30, 2018 compared with nine months ended September 30, 2017

Net Income

We earned net income of \$33.6 million for the nine months ended September 30, 2018 compared to \$29.9 million for the nine months ended September 30, 2017, an increase of \$3.7 million.

The results for the nine months ended September 30, 2018 include the results of operations of the acquisitions of FBD, SCC, and ICC since their respective acquisition dates and are inclusive of a combined \$7.0 million of transaction costs associated with the acquisitions included in noninterest expense. The results for the nine months ended September 30, 2018 were also impacted by the sale of THF, which resulted in a pre-tax gain on sale in the amount of \$1.1 million included in noninterest income. The results for the nine months ended September 30, 2017 were impacted by our sale of TCA, which resulted in a pre-tax gain on sale in the amount of \$20.9 million included in noninterest income, offset by an additional \$4.8 million bonus accrual and \$0.3 million of other indirect transaction related costs recorded in connection with the TCA sale; both reported as noninterest expense.

Excluding the tax-effected impact of the FBD, SCC and ICC transaction costs and the THF and TCA sale transactions, we earned adjusted net income of \$38.1 million for the nine months ended September 30, 2018 compared to \$19.9 million for the nine months ended September 30, 2017, an increase of \$18.2 million. The adjusted increase was primarily the result of a \$52.3 million increase in net interest income offset in part by a \$4.6 million increase in the provision for loan losses, a \$0.7 million decrease in adjusted noninterest income, a \$28.2 million increase in adjusted noninterest expense and a \$0.6 million increase in adjusted income tax expense.

Details of the changes in the various components of net income are further discussed below.

#### Net Interest Income

Our operating results depend primarily on our net interest income, which is the difference between interest income on interest earning assets, including loans and securities, and interest expense incurred on interest bearing liabilities, including deposits and other borrowed funds. Interest rate fluctuations, as well as changes in the amount and type of interest earning assets and interest bearing liabilities, combine to affect net interest income. Our net interest income is affected by changes in the amount and mix of interest earning assets and interest bearing liabilities, referred to as a “volume change.” It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing liabilities, referred to as a “rate change.”

The following table presents the distribution of average assets, liabilities and equity, as well as interest income and fees earned on average interest earning assets and interest expense paid on average interest bearing liabilities:

| (Dollars in thousands)               | Nine Months Ended September 30, |                |                             |                     |                |                             |  |
|--------------------------------------|---------------------------------|----------------|-----------------------------|---------------------|----------------|-----------------------------|--|
|                                      | 2018                            |                |                             | 2017                |                |                             |  |
|                                      | Average Balance                 | Interest       | Average Rate <sup>(4)</sup> | Average Balance     | Interest       | Average Rate <sup>(4)</sup> |  |
| <b>Interest earning assets:</b>      |                                 |                |                             |                     |                |                             |  |
| Cash and cash equivalents            | \$ 168,827                      | \$ 2,412       | 1.91 %                      | \$ 121,479          | \$ 986         | 1.09 %                      |  |
| Taxable securities                   | 176,953                         | 3,289          | 2.49 %                      | 239,353             | 4,750          | 2.65 %                      |  |
| Tax-exempt securities                | 53,444                          | 751            | 1.88 %                      | 25,581              | 254            | 1.33 %                      |  |
| FHLB stock                           | 18,548                          | 353            | 2.54 %                      | 11,295              | 129            | 1.53 %                      |  |
| Loans <sup>(1)</sup>                 | 2,996,138                       | 180,321        | 8.05 %                      | 2,126,532           | 118,888        | 7.47 %                      |  |
| <b>Total interest earning assets</b> | <b>3,413,910</b>                | <b>187,126</b> | <b>7.33 %</b>               | <b>2,524,240</b>    | <b>125,007</b> | <b>6.62 %</b>               |  |
| <b>Noninterest earning assets:</b>   |                                 |                |                             |                     |                |                             |  |
| Cash and cash equivalents            | 61,309                          |                |                             | 36,897              |                |                             |  |
| Other noninterest earning assets     | 227,294                         |                |                             | 170,289             |                |                             |  |
| <b>Total assets</b>                  | <b>\$ 3,702,513</b>             |                |                             | <b>\$ 2,731,426</b> |                |                             |  |
| <b>Interest bearing liabilities:</b> |                                 |                |                             |                     |                |                             |  |
| <b>Deposits:</b>                     |                                 |                |                             |                     |                |                             |  |
| Interest bearing demand              | \$ 396,550                      | \$ 603         | 0.20 %                      | \$ 326,798          | \$ 385         | 0.16 %                      |  |
| Individual retirement accounts       | 105,337                         | 963            | 1.22 %                      | 100,224             | 903            | 1.20 %                      |  |
| Money market                         | 281,205                         | 1,306          | 0.62 %                      | 205,585             | 356            | 0.23 %                      |  |
| Savings                              | 251,108                         | 120            | 0.06 %                      | 170,431             | 81             | 0.06 %                      |  |
| Certificates of deposit              | 791,400                         | 8,246          | 1.39 %                      | 767,680             | 6,682          | 1.16 %                      |  |
| Brokered deposits                    | 272,997                         | 3,889          | 1.90 %                      | 69,359              | 791            | 1.52 %                      |  |
| <b>Total deposits</b>                | <b>2,098,597</b>                | <b>15,127</b>  | <b>0.96 %</b>               | <b>1,640,077</b>    | <b>9,198</b>   | <b>0.75 %</b>               |  |
| Subordinated notes                   | 48,864                          | 2,512          | 6.87 %                      | 48,767              | 2,508          | 6.88 %                      |  |
| Junior subordinated debentures       | 38,789                          | 2,024          | 6.98 %                      | 32,881              | 1,435          | 5.83 %                      |  |
| Other borrowings                     | 384,922                         | 5,294          | 1.84 %                      | 286,910             | 1,978          | 0.92 %                      |  |

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|   |             |           |      |   |             |           |      |   |
|---|-------------|-----------|------|---|-------------|-----------|------|---|
| Total interest bearing liabilities          | 2,571,172   | 24,957    | 1.30 | % | 2,008,635   | 15,119    | 1.01 | % |
| Noninterest bearing liabilities and equity: |             |           |      |   |             |           |      |   |
| Noninterest bearing demand deposits         | 569,123     |           |      |   | 388,217     |           |      |   |
| Other liabilities                           | 27,260      |           |      |   | 12,984      |           |      |   |
| Total equity                                | 534,958     |           |      |   | 321,590     |           |      |   |
| Total liabilities and equity                | \$3,702,513 |           |      |   | \$2,731,426 |           |      |   |
| Net interest income                         |             | \$162,169 |      |   |             | \$109,888 |      |   |
| Interest spread <sup>(2)</sup>              |             |           | 6.03 | % |             |           | 5.61 | % |
| Net interest margin <sup>(3)</sup>          |             |           | 6.35 | % |             |           | 5.82 | % |



- (1) Balance totals include respective nonaccrual assets.
- (2) Net interest spread is the yield on average interest earning assets less the rate on interest bearing liabilities.
- (3) Net interest margin is the ratio of net interest income to average interest earning assets.
- (4) Ratios have been annualized.

The following table presents loan yields earned on our community banking and commercial finance loan portfolios:

| (Dollars in thousands)     | Nine Months Ended |              |       |   |
|----------------------------|-------------------|--------------|-------|---|
|                            | September 30,     |              |       |   |
|                            | 2018              | 2017         |       |   |
| Average community banking  | \$ 1,918,890      | \$ 1,370,339 |       |   |
| Average commercial finance | 1,077,248         | 756,193      |       |   |
| Average total loans        | \$ 2,996,138      | \$ 2,126,532 |       |   |
| Community banking yield    | 5.78              | %            | 5.65  | % |
| Commercial finance yield   | 12.08             | %            | 10.79 | % |
| Total loan yield           | 8.05              | %            | 7.47  | % |

We earned net interest income of \$162.2 for the nine months ended September 30, 2018 compared to \$109.9 for the nine months ended September 30, 2017, an increase of \$52.3, or 47.6%, primarily driven by the following factors.

Interest income increased \$62.1, or 49.7%, as a result of an increase in total average interest earning assets of \$889.7 million, or 35.2%, which was attributable to the impact of the FBD and SCC acquisitions which contributed \$287.8 million of loans and \$270.7 million of securities. The increase is also attributable to growth in our factored receivable operations as a result of the ICC acquisition and organic factored receivables growth. Additionally, interest income increased as a result of the Valley and Acquired Branch acquisitions which contributed \$267.0 million of loans and \$97.7 million of securities during the fourth quarter of 2017 and organic loan growth. The average balance of our higher yielding commercial finance loans increased \$321.0 million, or 42.4%, from \$756.2 million for the nine months ended September 30, 2017 to \$1,077.2 million for the nine months ended September 30, 2018 as a result of the ICC acquisition and the continued execution of our growth strategy for such products. Additionally, our average mortgage warehouse lending balance was \$238.8 million for the nine months ended September 30, 2018 compared to \$144.3 million for the nine months ended September 30, 2017. We also experienced increased average balances in our other community banking lending products, including commercial real estate and general commercial and industrial loans, due to organic growth period over period.

Interest expense increased \$9.8, or 65.1%, as a result of growth in customer deposits and other borrowings as well as higher average rates. Average total interest bearing deposits increased \$458.5 million, or 28.0%, primarily due to \$674.7 million of customer deposits assumed in the FBD and SCC acquisitions and \$454.1 million of customer deposits assumed in the Valley and Acquired Branches acquisitions. Excluding the acquired customer deposits, we also experienced growth in our certificates of deposit and brokered deposits as these higher cost deposit products were used to fund our growth period over period. In addition, our use of other interest bearing borrowings, consisting primarily of FHLB advances, was also increased to fund our growth however, our outstanding balance of FHLB advances at period end decreased period over period.

Net interest margin increased to 6.35% for the nine months ended September 30, 2018 from 5.82% for the nine months ended September 30, 2017, an increase of 53 basis points, or 9.1%.

The increase in our net interest margin primarily resulted from an increase in yields on our interest earning assets. Our average yield on interest earning assets increased 71 basis points to 7.33% for the nine months ended September 30, 2018 from 6.62% for the nine months ended September 30, 2017, primarily due to a change in the mix within our loan portfolio period over period. Our higher yielding average commercial finance products as a percentage of the total portfolio increased from 35.6% for the nine months ended September 30, 2017 to 36.0% for the

nine months ended September 30, 2018, and average factored receivables as a percentage of the total commercial finance portfolio increased from 35.0% for the nine months ended September 30, 2017 to 44.2% for the nine months ended September 30, 2018, contributing to the overall increase in yield on our interest earning assets. In addition, our transportation factoring balances, which generate a higher yield than our non-transportation factoring balances, increased as a percentage of the overall factoring portfolio to 78% at September 30, 2018 compared to 77% at September 30, 2017.

A component of the yield on our loan portfolio consists of discount accretion on the portfolios acquired in connection with our acquisitions. The aggregate increased yield on our loan portfolio attributable to the accretion of purchase discounts associated with our acquisitions was 31 basis points for the nine months ended September 30, 2018 and 33 basis points for the nine months ended September 30, 2017. Excluding the impact of this discount accretion, the adjusted yield on our loan portfolio was 7.74% and 7.14% for the nine months ended September 30, 2018 and 2017, respectively. Subject to future acquisitions, we anticipate that the contribution of this discount accretion to our interest income will continue to decline over time, but we expect that any resulting

decreases in aggregate yield on our loan portfolio will be offset in part by continued growth in our higher yielding specialized commercial finance product lines.

Also impacting our net interest margin was an increase in our average cost of interest bearing liabilities of 29 basis points. This increase was caused by an increased use of higher rate certificates of deposit and brokered deposits to fund our growth period over period, and higher rates on short term and floating rate FHLB advances as a result of higher interest rates in the macro economy. This increase was partially offset by a change in the mix of our interest bearing deposits resulting from lower cost customer deposits assumed in the FBD, SCC, Valley and Acquired Branches acquisitions.

Our adjusted net interest margin, which excludes the impact of the acquired loan discount accretion described above, was 6.08% and 5.54% for the nine months ended September 30, 2018 and 2017, respectively.

The following table shows the effects changes in average balances (volume) and average interest rates (rate) had on the interest earned in our interest earning assets and the interest incurred on our interest bearing liabilities:

| (Dollars in thousands)               | Nine Months Ended<br>September 30, 2018 vs.<br>2017 |                 |                 |
|--------------------------------------|---|-----------------|-----------------|
|                                      | Rate  | Volume          | Net<br>Increase |
| <b>Interest earning assets:</b>      |   |                 |                 |
| Cash and cash equivalents            | \$750   | \$676           | \$1,426         |
| Taxable securities                   | (301 )  | (1,160 )        | (1,461 )        |
| Tax-exempt securities                | 105   | 392             | 497             |
| FHLB stock                           | 86  | 138             | 224             |
| Loans                                | 9,096   | 52,337          | 61,433          |
| <b>Total interest income</b>         | <b>9,736</b>  | <b>52,383</b>   | <b>62,119</b>   |
| <b>Interest bearing liabilities:</b> |   |                 |                 |
| Interest bearing demand              | 112   | 106             | 218             |
| Individual retirement accounts       | 13  | 47              | 60              |
| Money market                         | 599   | 351             | 950             |
| Savings                              | —   | 39              | 39              |
| Certificates of deposit              | 1,317   | 247             | 1,564           |
| Brokered deposits                    | 197   | 2,901           | 3,098           |
| <b>Total deposits</b>                | <b>2,238</b>  | <b>3,691</b>    | <b>5,929</b>    |
| Subordinated notes                   | (1 )  | 5               | 4               |
| Junior subordinated debentures       | 281   | 308             | 589             |
| Other borrowings                     | 1,968   | 1,348           | 3,316           |
| <b>Total interest expense</b>        | <b>4,486</b>  | <b>5,352</b>    | <b>9,838</b>    |
| <b>Change in net interest income</b> | <b>\$5,250</b>                                      | <b>\$47,031</b> | <b>\$52,281</b> |

Provision for Loan Losses

The provision for loan losses is the amount of expense that, based on our judgment, is required to maintain the allowance for loan and lease losses (“ALLL”) at an appropriate level to absorb estimated incurred losses in the loan portfolio at the balance sheet date. The determination of the amount of the allowance is complex and involves a high degree of judgment and subjectivity.

Our ALLL was \$27.3 million as of September 30, 2018 versus \$18.7 million as of December 31, 2017, representing an ALLL to total loans ratio of 0.78% and 0.67% respectively.

Our provision for loan losses was \$14.3 million for the nine months ended September 30, 2018 compared to \$9.7 million for the nine months ended September 30, 2017, an increase of \$4.6 million, or 47.4%.

The increased provision for loan losses was the result of increased net charge-offs, increased net new specific reserves and loan growth. Net charge-offs increased by \$1.1 million to \$5.8 million for the nine months ended September 30, 2018 from \$4.7 million for the nine months ended September 30, 2017. Approximately \$1.6 million and \$1.7 million of the charge-offs for the nine months ended September 30, 2018 and 2017, respectively, had specific reserves previously recorded. We recorded net new specific reserves of \$3.2 million during the nine months ended September 30, 2018 compared to net new specific reserves of \$1.6 million recorded during the nine months ended September 30, 2017.

Excluding the aforementioned impact of the FBD and SCC acquisitions, during the nine months ended September 30, 2018 outstanding loans increased \$413.5 million from December 31, 2017. During the nine months ended September 30, 2017, outstanding loans increased \$397.8 million from December 31, 2016. The larger increase in loan balances within the nine months ended September 30, 2018 contributed to the increase in our provision for loan loss which was further impacted by the change in the mix of our loan portfolio with a greater percentage being made up of commercial finance loan products which tend to carry higher ALLL compared to our traditional community banking loan products. Given the short term nature of factored receivables, the loan growth figures for the nine months ended September 30, 2018 were not adjusted for the acquisition of ICC.

## Noninterest Income

The following table presents our major categories of noninterest income:

| (Dollars in thousands)                            | Nine Months Ended September 30, |                 |                   |                 |
|---|---------------------------------|-----------------|-------------------|-----------------|
|   | 2018                            | 2017            | \$ Change         | % Change        |
| Service charges on deposits                       | \$3,767                         | \$3,003         | \$764             | 25.4 %          |
| Card income                                       | 4,515                           | 2,700           | 1,815             | 67.2 %          |
| Net OREO gains (losses) and valuation adjustments | (551 )                          | (86 )           | (465 )            | (540.7 %)       |
| Net gains (losses) on sale of securities          | (272 )                          | 35              | (307 )            | (877.1 %)       |
| Fee income  | 3,514                           | 1,845           | 1,669             | 90.5 %          |
| Insurance commissions                             | 2,646                           | 2,125           | 521               | 24.5 %          |
| Asset management fees                             | —                               | 1,717           | (1,717 )          | (100.0 %)       |
| Gain on sale of subsidiary or division            | 1,071                           | 20,860          | (19,789)          | (94.9 %)        |
| CLO warehouse investment income                   | —                               | 1,954           | (1,954 )          | (100.0 %)       |
| Other   | 1,486                           | 2,505           | (1,019 )          | (40.7 %)        |
| <b>Total noninterest income</b>                   | <b>\$16,176</b>                 | <b>\$36,658</b> | <b>\$(20,482)</b> | <b>(55.9 %)</b> |

Noninterest income decreased \$20.5 million, or 55.9%. Noninterest income for the nine months ended September 30, 2018 was impacted by the realization of the \$1.1 million gain associated with the sale of THF in the first quarter of 2018 and noninterest income for the nine months ended September 30, 2017 was impacted by the realization of the \$20.9 million gain associated with the sale of TCA in the first quarter of 2017. Excluding the gain on sale of THF and the gain on sale of TCA, we earned adjusted noninterest income of \$15.1 million and \$15.8 million for the nine months ended September 30, 2018 and 2017, respectively, resulting in an adjusted decrease in noninterest income of \$0.7 million, or 4.4%, period over period. The adjusted decrease was primarily due to a decrease in asset management fees and CLO warehouse investment income resulting from the sale of TCA at the end of the first quarter of 2017. Changes in selected components of noninterest income in the above table are discussed below.

**Service Charges on Deposits.** Service charges on deposit accounts, including overdraft and non-sufficient funds fees, increased \$0.8 million, or 25.4%, primarily due to additional service charges associated with the increase in customer deposits due to the Valley and Acquired Branches acquisitions and to a lesser extent, the FBD and SCC acquisitions.

**Card Income.** Debit and credit card income increased \$1.8 million, or 67.2%, primarily due to additional customer debit and credit card activity associated with the increase in issued cards resulting from the Valley and Acquired Branches acquisitions and to a lesser extent, the FBD and SCC acquisitions. In addition to increased activity, we received a \$0.4 million incentive payment from our debit card provider for the achievement of certain growth goals. The incentive payment was received during the third quarter of 2018 is not expected to continue in future periods.

**Fee income.** Fee income increased \$1.7 million, or 90.5%, primarily due to increased check and wire fees resulting from the Valley and Acquired Branches acquisitions and to a lesser extent, the FBD and SCC acquisitions.

**Asset Management Fees.** As a result of the sale of TCA on March 31, 2017, there was no asset management fee income recorded for the nine months ended September 30, 2018, compared to \$1.7 million for the nine months ended

September 30, 2017.

◆CLO Warehouse Investment Income. We did not hold any CLO warehouse equity investments during the nine months ended September 30, 2018. As a result, there was no CLO warehouse investment income recorded for the nine months ended September 30, 2018, compared to \$2.0 million for the nine months ended September 30, 2017.

**Other.** Other noninterest income, including income for check cashing and wire transfer fees, income associated with trust activities, and bank-owned life insurance, decreased \$1.0 million, or 40.7%. The decrease was driven by a \$0.5 million increase on our liability for contingent consideration due to the sellers of ICC upon remeasurement of the liability at September 30, 2018. The contingent payment is due during the fourth quarter of 2020. The decrease was also driven by a write-down on signage and other assets of \$0.3 million related to rebranding of Triumph Community Bank to our standardized TBK Bank brand during the nine months ended September 30, 2018. There were no other significant increases or decreases in the components of other noninterest income period over period.

#### Noninterest Expense

The following table presents our major categories of noninterest expense:

| (Dollars in thousands)                          | Nine Months Ended September 30, |          |           |          |
|---|---------------------------------|----------|-----------|----------|
|   | 2018                            | 2017     | \$ Change | % Change |
| Salaries and employee benefits                  | \$64,626                        | \$54,687 | \$9,939   | 18.2 %   |
| Occupancy, furniture and equipment              | 9,621                           | 7,105    | 2,516     | 35.4 %   |
| FDIC insurance and other regulatory assessments | 945                             | 790      | 155       | 19.6 %   |
| Professional fees                               | 7,102                           | 4,671    | 2,431     | 52.0 %   |
| Amortization of intangible assets               | 4,542                           | 2,892    | 1,650     | 57.1 %   |
| Advertising and promotion                       | 3,938                           | 2,653    | 1,285     | 48.4 %   |
| Communications and technology                   | 13,882                          | 6,552    | 7,330     | 111.9 %  |
| Travel and entertainment                        | 3,014                           | 1,835    | 1,179     | 64.3 %   |
| Other   | 12,721                          | 9,198    | 3,523     | 38.3 %   |
| Total noninterest expense                       | \$120,391                       | \$90,383 | \$30,008  | 33.2 %   |

Noninterest expense increased \$30.0 million, or 33.2%. Noninterest expense for the nine months ended September 30, 2018 was impacted by \$1.1 million of transaction costs associated with the ICC acquisition and \$5.9 million of transaction costs associated with the FBD and SCC transactions. Noninterest expense for the nine months ended September 30, 2017 was impacted by the recognition of an incremental \$5.1 million of transaction related costs associated with the TCA sale, including \$4.8 million of bonus expense for the amount paid to team members to recognize their contribution to the value realized from the TCA sale and approximately \$0.3 million of other transaction related costs. Excluding the ICC, FBD and SCC transaction costs and the TCA sale bonus and transaction related costs, we incurred adjusted noninterest expense of \$113.4 million for the nine months ended September 30, 2018 and \$85.3 million for the nine months ended September 30, 2017, resulting in an adjusted net increase in noninterest expense of \$28.1 million, or 32.9% period over period. Details of the more significant changes in the various components of noninterest expense are further discussed below.

**Salaries and Employee Benefits.** Salaries and employee benefits expenses increased \$9.9 million, or 18.2%. Salaries and employee benefits expenses for the nine months ended September 30, 2017 included \$4.8 million of bonus expense associated with the TCA sale. Absent the TCA-related bonus expense, salaries and employee benefits expenses increased \$14.7 million. We experienced a significant increase in the total size of our workforce between these periods as our average full-time equivalent employees were 904.5 and 708.5 for the nine months ended September 30, 2018 and 2017, respectively. Sources of this increased headcount were primarily employees added through the ICC, Valley and Acquired Branches acquisitions and to a lesser extent, employees added through the FBD and SCC acquisitions. In addition, employees were hired to support growth in our commercial finance product lines and other strategic initiatives. Other factors contributing to the increase in salaries and employee benefits include merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense.

**Occupancy, Furniture and Equipment.** Occupancy, furniture and equipment expenses increased \$2.5 million, or 35.4%, primarily due to expenses associated with the infrastructure and facilities added through the ICC, Valley and

Acquired Branches acquisitions and to a lesser extent, infrastructure and facilities added through the FBD and SCC acquisitions.

**Professional Fees.** Professional fees, which are primarily comprised of external audit, tax, consulting, and legal fees, increased \$2.4 million, or 52.0% primarily due to \$1.1 million of professional fees incurred in connection with the ICC acquisition and \$1.4 million of professional fees incurred in connection with the FBD and SCC acquisitions during the quarter.



• **Amortization of intangible assets.** Amortization of intangible assets increased \$1.7 million, or 57.1%, primarily due to the addition of intangible assets resulting from the ICC, Valley and Acquired Branch acquisitions and to a lesser extent, intangible assets added through the FBD and SCC acquisitions.

• **Advertising and promotion.** Advertising and promotion expenses increased \$1.3 million, or 48.4%, primarily due to advertising and brand-awareness activities in connection with the FBD and SCC acquisitions.

• **Communications and Technology.** Communications and technology expenses increased \$7.3 million, or 111.9%, primarily as a result of \$3.1 million in information technology deconversion and termination fees resulting from our acquisition of FBD and SCC. The remaining increase is a result of increased usage and transaction volumes resulting from the ICC, Valley and Acquired Branch acquisitions and to a lesser extent, increased usage and transaction volumes resulting from the FBD and SCC acquisitions. The increase is also a result of growth in our organic operations.

• **Other.** Other noninterest expense includes loan-related expenses, training and recruiting, postage, insurance, and subscription services. Other noninterest expense increased \$3.5 million or 38.3% primarily due to an increase in software amortization cost resulting from our investments in systems and infrastructure to support the growth in our operations. There were no other significant increases or decreases in the components of other noninterest expense period over period.

#### Income Taxes

The amount of income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income and the effect of changes in valuation allowances maintained against deferred tax benefits.

Income tax expense decreased \$6.5 million, or 39.2%, from \$16.6 million for the nine months ended September 30, 2017 to \$10.1 million for the nine months ended September 30, 2018. The effective tax rate decreased from 36% for the nine months ended September 30, 2017 to 23% for the nine months ended September 30, 2018, primarily due to the enactment of the Tax Cuts and Jobs Act (the "Tax Act") on December 22, 2017 which lowered our federal statutory tax rate, effective on January 1, 2018, and resulted in significant modifications to existing law.

In regard to the Tax Act, 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.

#### Operating Segment Results

Our reportable segments are Banking, Factoring, and Corporate, which have been determined based upon their business processes and economic characteristics. This determination also gave consideration to the structure and management of various product lines. The Banking segment includes the operations of TBK Bank. Our Banking segment derives its revenue principally from investments in interest earning assets as well as noninterest income typical for the banking industry. The Banking segment also includes certain factored receivables which are purchased by TBK Bank. The Factoring segment includes the operations of Triumph Business Capital with revenue derived from factoring services. Corporate includes holding company financing and investment activities, asset management fees associated with TCA prior to its sale on March 31, 2017, and management and administrative expenses to support the overall operations of the Company.

Reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. The accounting policies of the segments are substantially similar to those described in the "Summary of Significant Accounting Policies" in Note 1 of the Company's 2017 Form 10-K. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense

is allocated to the Factoring segment based on the Company's prime rate. The provision for loan loss is allocated based on the segment's ALLL determination. Noninterest income and expense directly attributable to a segment are assigned accordingly. Taxes are paid on a consolidated basis and are not allocated for segment purposes.

The following tables present our primary operating results for our operating segments:

(Dollars in thousands)

| Nine Months Ended September 30, 2018   | Banking   | Factoring | Corporate | Consolidated |
|--|-----------|-----------|-----------|--------------|
| Total interest income                  | \$123,050 | \$62,514  | \$1,562   | \$187,126    |
| Intersegment interest allocations      | 13,377    | (13,377)  | —         | —            |
| Total interest expense                 | 20,421    | —         | 4,536     | 24,957       |
| Net interest income (expense)          | 116,006   | 49,137    | (2,974)   | 162,169      |
| Provision for loan losses              | 10,510    | 3,747     | —         | 14,257       |
| Net interest income after provision    | 105,496   | 45,390    | (2,974)   | 147,912      |
| Gain on sale of subsidiary or division | 1,071     | —         | —         | 1,071        |
| Other noninterest income               | 12,612    | 2,452     | 41        | 15,105       |
| Noninterest expense                    | 86,446    | 30,067    | 3,878     | 120,391      |
| Operating income (loss)                | \$32,733  | \$17,775  | \$(6,811) | \$43,697     |

(Dollars in thousands)

| Nine Months Ended September 30, 2017   | Banking  | Factoring | Corporate | Consolidated |
|--|----------|-----------|-----------|--------------|
| Total interest income                  | \$93,204 | \$30,828  | \$975     | \$125,007    |
| Intersegment interest allocations      | 5,211    | (5,211)   | —         | —            |
| Total interest expense                 | 11,177   | —         | 3,942     | 15,119       |
| Net interest income (expense)          | 87,238   | 25,617    | (2,967)   | 109,888      |
| Provision for loan losses              | 7,571    | 2,042     | 84        | 9,697        |
| Net interest income after provision    | 79,667   | 23,575    | (3,051)   | 100,191      |
| Gain on sale of subsidiary or division | —        | —         | 20,860    | 20,860       |
| Other noninterest income               | 10,604   | 2,203     | 2,991     | 15,798       |
| Noninterest expense                    | 65,171   | 16,677    | 8,535     | 90,383       |
| Operating income (loss)                | \$25,100 | \$9,101   | \$12,265  | \$46,466     |

(Dollars in thousands)

| September 30, 2018 | Banking     | Factoring | Corporate | Eliminations  | Consolidated |
|--------------------|-------------|-----------|-----------|---------------|--------------|
| Total assets       | \$4,433,862 | \$659,782 | \$712,971 | \$(1,269,513) | \$4,537,102  |
| Gross loans        | \$3,411,456 | \$579,985 | \$10,952  | \$(490,250)   | \$3,512,143  |

(Dollars in thousands)

| December 31, 2017 | Banking     | Factoring | Corporate | Eliminations | Consolidated |
|-------------------|-------------|-----------|-----------|--------------|--------------|
| Total assets      | \$3,444,322 | \$360,922 | \$504,656 | \$(810,867)  | \$3,499,033  |
| Gross loans       | \$2,784,147 | \$346,293 | \$11,936  | \$(331,520)  | \$2,810,856  |

Banking

| (Dollars in thousands)            | Nine Months Ended September 30, |          |           |          |
|-----------------------------------|---------------------------------|----------|-----------|----------|
|                                   | 2018                            | 2017     | \$ Change | % Change |
| Banking                           |                                 |          |           |          |
| Total interest income             | \$123,050                       | \$93,204 | \$29,846  | 32.0 %   |
| Intersegment interest allocations | 13,377                          | 5,211    | 8,166     | 156.7 %  |
| Total interest expense            | 20,421                          | 11,177   | 9,244     | 82.7 %   |
| Net interest income (expense)     | 116,006                         | 87,238   | 28,768    | 33.0 %   |

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|   |          |          |         |       |   |
|---|----------|----------|---------|-------|---|
| Provision for loan losses                     | 10,510   | 7,571    | 2,939   | 38.8  | % |
| Net interest income (expense) after provision | 105,496  | 79,667   | 25,829  | 32.4  | % |
| Gain on sale of subsidiary or division        | 1,071    | —        | 1,071   | 100.0 | % |
| Other noninterest income                      | 12,612   | 10,604   | 2,008   | 18.9  | % |
| Noninterest expense                           | 86,446   | 65,171   | 21,275  | 32.6  | % |
| Operating income (loss)                       | \$32,733 | \$25,100 | \$7,633 | 30.4  | % |

Our Banking segment's operating income increased \$7.6 million, or 30.4%.

Interest income increased primarily as a result of increases in the average balances of our interest earning assets, primarily loans, which was attributable to the impact of the FBD and SCC acquisitions which contributed \$287.8 million of loans and \$270.7 million of securities. Additionally, interest income increased as a result of the Valley and Acquired Branch acquisitions which contributed \$267.0 million of loans and \$97.7 million of securities and organic loan growth. Average loans in our Banking segment increased 41.6% from \$2.049 billion for the nine months ended September 30, 2017 to \$2.901 billion for the nine months ended September 30, 2018.

Interest expense increased primarily as a result of growth in average customer deposits and other borrowings due to \$674.7 million of customer deposits assumed in the FBD and SCC acquisitions as well as \$454.1 million of customer deposits assumed in the Valley and Acquired Branches acquisitions. Excluding the acquired customer deposits, we also experienced growth in our certificates of deposit and brokered deposits as these higher cost deposit products were used to fund our growth period over period. In addition, our use of other interest bearing borrowings, consisting primarily of FHLB advances, was also increased to fund our growth however, our outstanding balance of FHLB advances at period end decreased period over period. We also experienced increased rates across several of our interest bearing borrowings.

The increase in the provision for loan loss was primarily the result of an increase in net loan charge-offs recorded during the nine months ended September 30, 2018. We experienced higher total net charge-offs at our Banking segment of \$4.9 million in the nine months ended September 30, 2018 compared to \$3.7 million for the same period in 2017. Approximately \$1.2 million and \$1.7 million of the charge-offs for the nine months ended September 30, 2018 and 2017, respectively, had specific reserves previously recorded at our Banking segment. Net new specific reserves our Banking segment were \$1.8 million and \$1.6 million for the nine months ended September 30, 2018 and 2017 respectively. Additionally, loans in our Banking segment grew at a slower pace for the nine months ended September 30, 2018 compared to the same period in 2017 which, when combined with changes in the mix of our portfolio and loss factors used to calculate the ALLL, partially offset the increased provision for loan loss.

Noninterest income increased primarily due to the realization of the \$1.1 million gain associated with the sale of THF during the first quarter as well as additional service charges and card income associated with the increase in customer deposit and credit/debit card accounts acquired in the FBD, SCC, Valley and Acquired Branches acquisitions. These increases were impacted by a combined loss on the sale of municipal securities and OREO valuation adjustments of \$0.9 million during the nine months ended September 30, 2018. Noninterest income for our Banking Segment includes \$0.4 million incentive payment from our card provider for the achievement of certain growth goals during the three months ended September 30, 2018. The incentive payment is not expected to continue in future periods. It also includes a write-down on signage and other assets of \$0.3 million related to rebranding of Triumph Community Bank to our standardized TBK Bank brand during the three months ended September 30, 2018. In addition, other sources of noninterest income, such as check cashing fees, wire transfer fees, and trust activities increased slightly due to incremental transaction volumes associated with the acquisitions.

For the nine months ended September 30, 2018 noninterest expense at our Banking segment includes \$4.6 million of transaction costs as well as increased intangible amortization as a result of the FBD and SCC acquisitions with no comparable expenses for the three months ended September 30, 2017. Additionally, noninterest expense increased due to incremental costs associated with the growth in our Banking segment personnel and infrastructure in conjunction with our acquisitions of Valley and the Acquired Branches and to a lesser extent, our acquisitions of FBD and SCC, as well as personnel, facilities and infrastructure to support the continued organic growth in our lending operations. In addition, increases due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense contributed to the increase.

Factoring

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| (Dollars in thousands)                        | Nine Months Ended |          |          |         |
|---|-------------------|----------|----------|---------|
|   | September 30,     |          | \$       | %       |
| Factoring                                     | 2018              | 2017     | Change   | Change  |
| Total interest income                         | \$62,514          | \$30,828 | \$31,686 | 102.8 % |
| Intersegment interest allocations             | (13,377)          | (5,211)  | (8,166)  | 156.7 % |
| Total interest expense                        | —                 | —        | —        | —       |
| Net interest income (expense)                 | 49,137            | 25,617   | 23,520   | 91.8 %  |
| Provision for loan losses                     | 3,747             | 2,042    | 1,705    | 83.5 %  |
| Net interest income (expense) after provision | 45,390            | 23,575   | 21,815   | 92.5 %  |
| Gain on sale of subsidiary or division        | —                 | —        | —        | —       |
| Other noninterest income                      | 2,452             | 2,203    | 249      | 11.3 %  |
| Noninterest expense                           | 30,067            | 16,677   | 13,390   | 80.3 %  |
| Operating income (loss)                       | \$17,775          | \$9,101  | \$8,674  | 95.3 %  |

|   | Nine Months Ended September 30, |                 |
|---|---------------------------------|-----------------|
|   | 2018                            | 2017            |
| Factored receivable period end balance              | \$579,985,000                   | \$315,742,000   |
| Yield on average receivable balance                 | 18.50                           | % 17.11 %       |
| Rolling twelve quarter annual charge-off rate       | 0.38                            | % 0.44 %        |
| Factored receivables - transportation concentration | 83                              | % 84 %          |
| Interest income, including fees                     | \$62,514,000                    | \$30,828,000    |
| Non-interest income                                 | 2,452,000                       | 2,203,000       |
| Factored receivable total revenue                   | 64,966,000                      | 33,031,000      |
| Average net funds employed                          | 413,361,000                     | 221,573,000     |
| Yield on average net funds employed                 | 21.01                           | % 19.93 %       |
| Accounts receivable purchased                       | \$3,578,195,000                 | \$1,893,305,000 |
| Number of invoices purchased                        | 2,015,106                       | 1,298,466       |
| Average invoice size                                | \$1,773                         | \$1,453         |
| Average invoice size - transportation               | \$1,674                         | \$1,397         |
| Average invoice size - non-transportation           | \$2,806                         | \$1,905         |
| Net new clients                                     | 2,774                           | 483             |
| Period end clients                                  | 5,932                           | 2,925           |

Our Factoring segment's operating income increased \$8.7 million, or 95.3%.

Our average invoice size increased 22.0% from \$1,453 for the nine months ended September 30, 2017 to \$1,773 for the nine months ended September 30, 2018, and the number of invoices purchased increased 55.2% period over period. At September 30, 2018, Triumph Business Capital had 86 clients utilizing the TriumphPay platform. For the nine months ended September 30, 2018, TriumphPay processed 146,688 invoices paying 25,733 distinct carriers a total of \$209.6 million.

Net interest income increased due to a 86.6% increase in overall average net funds employed during the nine months ended September 30, 2018 compared to the same period during the prior year. Net funds employed represent factored receivable balances net of customer reserves which we hold 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 our consolidated balance sheets. The increase in NFE was the result of the ICC acquisition as well as organic growth in the factored receivables portfolio. In addition to increased average net funds employed, yield on average net funds employed increased period over period as a result of an increased average invoice size. Our transportation factoring balances, which typically generate a higher yield than our non-transportation factoring balances, as a percentage of the overall Factoring segment portfolio decreased from 84% on September 30, 2017 to 83% on September 30, 2018.

The increase in the provision for loan losses was the result of higher growth in the ending balance of the factored receivables portfolio during the nine months ended September 30, 2018 compared to the same period in 2017. The ending balance of the factored receivables portfolio at our Factoring segment grew \$233.7 million during the nine months ended September 30, 2018 compared to ending balance growth of \$103.0 million over the same time period during the prior year. We recorded net new allowances on specific at-risk balances at our Factoring segment of \$1.4 million during the nine months ended September 30, 2018 with no significant net new allowances on specific at-risk balances during the nine months ended September 30, 2017. We experienced lower total net charge-offs of \$0.8 million in the nine months ended September 30, 2018 compared to \$1.0 million for the same period in 2017.

Noninterest income was relatively flat and the increase in noninterest expense was driven primarily by increased personnel, operating, and technology costs incurred in connection with the ICC acquisition and growth in our factoring portfolio, particularly the increase in the number of clients and number of invoices processed period over period. Reflected in our Factoring segment's noninterest expense for the nine months ended September 30, 2018 is \$1.1 million in transaction costs related to the ICC acquisition.



## Corporate

| (Dollars in thousands)                        | Nine Months Ended<br>September 30, |          |              |             |
|---|------------------------------------|----------|--------------|-------------|
|   | 2018                               | 2017     | \$<br>Change | %<br>Change |
| Corporate                                     |                                    |          |              |             |
| Total interest income                         | \$1,562                            | \$975    | \$587        | 60.2 %      |
| Intersegment interest allocations             | —                                  | —        | —            | —           |
| Total interest expense                        | 4,536                              | 3,942    | 594          | 15.1 %      |
| Net interest income (expense)                 | (2,974)                            | (2,967)  | (7)          | 0.2 %       |
| Provision for loan losses                     | —                                  | 84       | (84)         | (100.0 %)   |
| Net interest income (expense) after provision | (2,974)                            | (3,051)  | 77           | (2.5 %)     |
| Gain on sale of subsidiary or division        | —                                  | 20,860   | (20,860)     | (100.0 %)   |
| Other noninterest income                      | 41                                 | 2,991    | (2,950)      | (98.6 %)    |
| Noninterest expense                           | 3,878                              | 8,535    | (4,657)      | (54.6 %)    |
| Operating income (loss)                       | \$(6,811)                          | \$12,265 | \$(19,076)   | (155.5 %)   |

The Corporate segment's operating income decreased primarily due to the net impact of the TCA sale transaction recorded during the nine months ended September 30, 2017. As TCA was a wholly owned subsidiary of our parent company, the \$20.9 million gain on sale of TCA was reported as noninterest income and the \$5.1 million of bonus expense and transaction related costs associated with the TCA sale were reported as noninterest expense in the Corporate segment. Excluding the impact of the TCA sale, the Corporate segment reported an operating loss of \$6.8 million for the nine months ended September 30, 2018 compared to a loss of \$3.5 million for the nine months ended September 30, 2017. This increase in operating loss was primarily the result of a \$2.0 million decrease in noninterest income associated with CLO warehouse investments. The CLO associated with our remaining CLO warehouse investment was issued and closed in June 2017, and as a result our invested funds were returned. During the nine months ended September 30, 2018 we no longer held investments in CLO warehouse entities and, absent future investments in new CLO warehouse entities, we do not expect to realize CLO warehouse investment income ongoing. As a result, there was no CLO warehouse investment income recorded for the nine months ended September 30, 2018. Additionally, \$1.3 million of FBD and SCC-related transaction costs recorded during the nine months ended September 30, 2018. There were no other significant fluctuations in accounts in our Corporate segment period over period.

## Financial Condition

## Assets

Total assets were \$4.537 billion at September 30, 2018, compared to \$3.499 billion at December 31, 2017, an increase of \$1,038.1 million, the components of which are discussed below.

## Loan Portfolio

Loans held for investment were \$3.512 billion at September 30, 2018, compared with \$2.811 billion at December 31, 2017.

The following table shows our total loan portfolio by portfolio segments:

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| (Dollars in thousands)               | September 30,<br>2018 |               |             | December 31,<br>2017 |               |         | \$ Change | % Change |
|--------------------------------------|-----------------------|---------------|-------------|----------------------|---------------|---------|-----------|----------|
|                                      |                       | % of<br>Total |             |                      | % of<br>Total |         |           |          |
| Commercial real estate               | \$906,494             | 26 %          | \$745,893   | 27 %                 | \$160,601     | 21.5 %  |           |          |
| Construction, land development, land | 190,920               | 5 %           | 134,812     | 5 %                  | 56,108        | 41.6 %  |           |          |
| 1-4 family residential properties    | 194,752               | 6 %           | 125,827     | 4 %                  | 68,925        | 54.8 %  |           |          |
| Farmland                             | 177,313               | 5 %           | 180,141     | 6 %                  | (2,828 )      | (1.6 %) |           |          |
| Commercial                           | 1,123,598             | 32 %          | 920,812     | 33 %                 | 202,786       | 22.0 %  |           |          |
| Factored receivables                 | 611,285               | 17 %          | 374,410     | 13 %                 | 236,875       | 63.3 %  |           |          |
| Consumer                             | 31,423                | 1 %           | 31,131      | 1 %                  | 292           | 0.9 %   |           |          |
| Mortgage warehouse                   | 276,358               | 8 %           | 297,830     | 11 %                 | (21,472 )     | (7.2 %) |           |          |
| Total Loans                          | \$3,512,143           | 100 %         | \$2,810,856 | 100 %                | \$701,287     | 24.9 %  |           |          |

Commercial Real Estate Loans. Our commercial real estate loans increased \$160.6 million, or 21.5%, due primarily to \$153.9 million of commercial real estate loans acquired from FBD and SCC. We continue to allocate internal resources to focus on and source additional commercial real estate opportunities on a nationwide basis.

Construction and Development Loans. Our construction and development loans increased \$56.1 million, or 41.6%, due primarily to new loan origination activity during 2018 and \$22.3 million of construction and development loans acquired from FBD and SCC.

Residential Real Estate Loans. Our one-to-four family residential loans increased \$68.9 million, or 54.8%, due primarily to \$69.5 million of residential real estate loans acquired from FBD and SCC offset slightly by paydowns during 2018.

Farmland Loans. Our farmland loans decreased \$2.8 million, or 1.6%, due to paydowns that outpaced new loan origination activity for the period. The decrease was partially offset by \$6.9 million of farmland loans acquired from FBD and SCC.

Commercial Loans. Our commercial loans held for investment increased \$202.8 million, or 22.0%, primarily due to growth in the asset based loans, equipment finance loans, and premium finance loans as we continue to execute on our growth strategy for such products. In addition, our other commercial lending products, comprised primarily of general commercial loans originated in our community banking markets, increased \$48.8 million, or 18.7% as a result of organic growth and \$29.3 million of commercial loans acquired from FBD and SCC.

The following table shows our commercial loans:

| (Dollars in thousands)        | December            |                    | \$ Change         | % Change    |          |
|-------------------------------|---------------------|--------------------|-------------------|-------------|----------|
|                               | September 30, 2018  | September 30, 2017 |                   |             |          |
| <b>Commercial</b>             |                     |                    |                   |             |          |
| Equipment                     | \$ 323,832          | \$ 254,119         | \$ 69,713         | 27.4        | %        |
| Asset based lending           | 273,096             | 213,471            | 59,625            | 27.9        | %        |
| Premium finance               | 75,293              | 55,520             | 19,773            | 35.6        | %        |
| Agriculture                   | 141,501             | 136,649            | 4,852             | 3.6         | %        |
| Other commercial lending      | 309,876             | 261,053            | 48,823            | 18.7        | %        |
| <b>Total commercial loans</b> | <b>\$ 1,123,598</b> | <b>\$ 920,812</b>  | <b>\$ 202,786</b> | <b>22.0</b> | <b>%</b> |

Factored Receivables. Our factored receivables increased \$236.9 million, or 63.3%, primarily due to the ICC acquisition which has allowed us to increase the size of our factored receivables operations. We continue to execute on our growth strategy for this product at Triumph Business Capital, our factoring subsidiary, as well as through growth in factored receivables purchased under our Triumph Commercial Finance brand.

Consumer Loans. Our consumer loans increased \$0.3 million, or 0.9%, due primarily to \$6.0 million of consumer loans acquired from FBD and SCC offset by paydowns in excess of new loan origination activity during the period.

Mortgage Warehouse. Our mortgage warehouse facilities decreased \$21.5 million, or 7.2%, due to lower utilization by our clients due to typical seasonality associated with the mortgage business during the period. Client utilization of mortgage warehouse facilities may experience significant fluctuation on a day-to-day basis given mortgage origination market conditions. Our average mortgage warehouse lending balance was \$289.7 million for the three months ended September 30, 2018 compared to \$177.8 million for the three months ended September 30, 2017 and \$238.8 million for the nine months ended September 30, 2018 compared to \$144.3 million for the nine months ended September 30, 2017.



The following tables set forth the contractual maturities, including scheduled principal repayments, of our loan portfolio and the distribution between fixed and floating interest rate loans:

|                                      | September 30, 2018     |                                       |                        |             |
|--------------------------------------|------------------------|---------------------------------------|------------------------|-------------|
|                                      | One Year<br>or<br>Less | After One<br>but within<br>Five Years | After<br>Five<br>Years | Total       |
| (Dollars in thousands)               |                        |                                       |                        |             |
| Commercial real estate               | \$89,027               | \$541,548                             | \$275,919              | \$906,494   |
| Construction, land development, land | 69,866                 | 76,528                                | 44,526                 | 190,920     |
| 1-4 family residential properties    | 51,228                 | 50,084                                | 93,440                 | 194,752     |
| Farmland                             | 7,558                  | 58,112                                | 111,643                | 177,313     |
| Commercial                           | 492,122                | 568,111                               | 63,365                 | 1,123,598   |
| Factored receivables                 | 611,285                | —                                     | —                      | 611,285     |
| Consumer                             | 4,037                  | 14,874                                | 12,512                 | 31,423      |
| Mortgage warehouse                   | 276,358                | —                                     | —                      | 276,358     |
|                                      | \$1,601,481            | \$1,309,257                           | \$601,405              | \$3,512,143 |

Sensitivity of loans to changes in interest rates:

|                                      |             |           |
|--------------------------------------|-------------|-----------|
| Predetermined (fixed) interest rates | \$885,633   | \$194,751 |
| Floating interest rates              | 423,624     | 406,654   |
| Total                                | \$1,309,257 | \$601,405 |

As of September 30, 2018, most of the Company's non-factoring business activity is with customers located within certain states. The states of Colorado (28%), Texas (19%), Illinois (14%), and Iowa (7%) make up 68% of the Company's gross loans, excluding factored receivables. Therefore, the Company's exposure to credit risk is affected by changes in the economies in these states. At December 31, 2017, the states of Colorado (26%), Texas (24%), Illinois (17%) and Iowa (7%) made up 74% of the Company's gross loans, excluding factored receivables.

Further, a majority (78%) of our factored receivables, representing approximately 14% of our total loan portfolio as of September 30, 2018, are receivables purchased from trucking fleets, owner-operators, and freight brokers in the transportation industry. Although such concentration may cause our future interest income with respect to our factoring operations to be correlated with demand for the transportation industry in the United States generally, and small-to-mid-sized operators in such industry specifically, we feel that the credit risk with respect to our outstanding portfolio is appropriately mitigated as we limit the amount of receivables acquired from individual debtors and creditors thereby achieving diversification across a number of companies and industries. At December 31, 2017, 77% of our factored receivables, representing approximately 10% of our total loan portfolio, were receivables purchased from trucking fleets, owner-operators, and freight brokers in the transportation industry.

## Nonperforming Assets

We have established procedures to assist us in maintaining the overall quality of our loan portfolio. In addition, we have adopted underwriting guidelines to be followed by our lending officers and require senior management review of proposed extensions of credit exceeding certain thresholds. When delinquencies exist, we monitor them for any negative or adverse trends. Our loan review procedures include approval of lending policies and underwriting guidelines by the Board of Directors of our bank subsidiary, independent loan review, approval of large credit relationships by our bank subsidiary's Management Loan Committee and loan quality documentation procedures. We, like other financial institutions, are subject to the risk that our loan portfolio will be subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

The following table sets forth the allocation of our nonperforming assets among our different asset categories as of the dates indicated. We classify nonperforming assets as nonaccrual loans, loans modified under restructurings as a result of the borrower experiencing financial difficulties ("TDR"), factored receivables greater than 90 days past due, OREO, and other repossessed assets. The balances of nonperforming loans reflect the recorded investment in these assets, including deductions for purchase discounts.

| (Dollars in thousands)                                  | September 30,<br>2018 | December<br>31,<br>2017 |      |   |
|---|-----------------------|-------------------------|------|---|
| Nonperforming loans:                                    |                       |                         |      |   |
| Commercial real estate                                  | \$ 7,873              | \$ 1,012                |      |   |
| Construction, land development, land                    | 221                   | 136                     |      |   |
| 1-4 family residential properties                       | 2,239                 | 2,638                   |      |   |
| Farmland  | 4,156                 | 4,182                   |      |   |
| Commercial  | 19,616                | 26,592                  |      |   |
| Factored receivables                                    | 2,252                 | 1,454                   |      |   |
| Consumer  | 276                   | 384                     |      |   |
| Mortgage warehouse                                      | —                     | —                       |      |   |
| Purchased credit impaired                               | 2,969                 | 2,333                   |      |   |
| Total nonperforming loans                               | 39,602                | 38,731                  |      |   |
| Other real estate owned, net                            | 2,442                 | 9,191                   |      |   |
| Other repossessed assets                                | 165                   | 320                     |      |   |
| Assets held for sale                                    | —                     | 245                     |      |   |
| Total nonperforming assets                              | \$ 42,209             | \$ 48,487               |      |   |
| Nonperforming assets to total assets                    | 0.93                  | %                       | 1.39 | % |
| Nonperforming loans to total loans held for investment  | 1.13                  | %                       | 1.38 | % |
| Total past due loans to total loans held for investment | 2.23                  | %                       | 2.33 | % |

Nonperforming loans, including nonaccrual PCI loans, increased \$0.9 million, or 2.2%, primarily due to the additions of a \$5.2 million nonperforming commercial real estate relationship carrying a 90% government guarantee and secured by an assisted living facility. A \$1.2 million nonperforming agriculture relationship secured by underlying land and farm equipment was also added during the period. These increases were offset by a \$5.8 million commercial loan that was paid off from the proceeds of the sale of the collateral to a third party buyer. The purchase was financed with a significant equity investment as well as financing from TBK Bank. Additionally, we charged-off \$4.0 million on a single nonaccrual asset based lending relationship during the period. Refer to the Provision for Loan Losses discussion for further details regarding the charge-off. The remaining activity in nonperforming loans was also

impacted by additions and removals of smaller credits to and from nonperforming loans.

OREO decreased \$6.7 million, or 73.4%, primarily due to the sale of five properties during 2018 resulting in total proceeds of \$7.8 million and an insignificant total gain on sale. The decrease driven by the sale of OREO properties was partially offset by the addition of individually insignificant OREO properties as well as valuation adjustments made throughout the year.

As a result of the above activity, the ratio of nonperforming loans to total loans held for investment decreased to 1.13% at September 30, 2018 compared to 1.38% at December 31, 2017, and our ratio of nonperforming assets to total assets decreased to 0.93% at September 30, 2018 compared to 1.39% at December 31, 2017.

Past due loans to total loans held for investment decreased to 2.23% at September 30, 2018 compared to 2.33% at December 31, 2017, primarily due to the nonperforming loan activity factors described above and other payment performance activity.

Potential problem loans consist of loans that are performing in accordance with contractual terms but for which management has concerns about the ability of an obligor to continue to comply with repayment terms because of the obligor's potential operating or financial difficulties. Management monitors these loans and reviews their performance on a regular basis. Potential problem loans contain potential weaknesses that could improve, persist or further deteriorate. At September 30, 2018, we had \$10.2 million in loans of this type which are not included in any of the nonperforming loan categories.

#### Allowance for Loan and Lease Losses

ALLL is a valuation allowance for probable incurred credit losses. Loan losses are charged against the ALLL when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALLL. Management estimates the ALLL balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the ALLL may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

In addition, the product types associated with fluctuations within the loan portfolio also contribute to the allowance allocation, as different loan products require different levels of ALLL based upon their credit risk characteristics. Loan loss valuation allowances are recorded on specific at-risk balances, typically consisting of impaired loans and factored invoices greater than 90 days past due with negative cash reserves.

Under accounting standards for business combinations, acquired loans are recorded at fair value on the date of acquisition. This fair value adjustment eliminates any of the seller's ALLL associated with such loans as of the purchase date as any credit exposure associated with such loans is incorporated into the fair value adjustment. A provision for loan losses is recorded for the emergence of new incurred and estimable losses on acquired loans after the acquisition date in excess of the recorded discount.

The following table sets forth the ALLL by category of loan:

|                                      | September 30, 2018 |                |        | December 31, 2017 |                |        |
|--------------------------------------|--------------------|----------------|--------|-------------------|----------------|--------|
|                                      | Allowance          | % of           | ALLL   | Allowance         | % of           | ALLL   |
| (Dollars in thousands)               | Portfolio          | Allocated Loan | to     | Portfolio         | Allocated Loan | to     |
| Commercial real estate               | \$4,042            | 26 %           | 0.45 % | \$3,435           | 27 %           | 0.46 % |
| Construction, land development, land | 1,271              | 5 %            | 0.67 % | 883               | 5 %            | 0.65 % |
| 1-4 family residential properties    | 259                | 6 %            | 0.13 % | 293               | 4 %            | 0.23 % |
| Farmland                             | 503                | 5 %            | 0.28 % | 310               | 6 %            | 0.17 % |
| Commercial                           | 12,753             | 32 %           | 1.14 % | 8,150             | 33 %           | 0.89 % |
| Factored receivables                 | 7,571              | 17 %           | 1.24 % | 4,597             | 13 %           | 1.23 % |
| Consumer                             | 581                | 1 %            | 1.85 % | 783               | 1 %            | 2.52 % |
| Mortgage warehouse                   | 276                | 8 %            | 0.10 % | 297               | 11 %           | 0.10 % |
| Total Loans                          | \$27,256           | 100 %          | 0.78 % | \$18,748          | 100 %          | 0.67 % |



The ALLL increased \$8.5 million, or 45.4%, which was driven by \$5.7 million of net charge-offs (which carried a reserve of \$1.6 million at the time of charge-off), \$3.2 million of net new specific allowances recorded on impaired loans and growth in the underlying portfolio during the nine months ended September 30, 2018.

The following table presents the unpaid principal and recorded investment for loans at September 30, 2018. The difference between the unpaid principal balance and recorded investment is principally (1) premiums and discounts associated with acquisition date fair value adjustments on acquired loans (both PCI and non-PCI) totaling \$20.9 million at September 30, 2018, and (2) net deferred origination costs and fees totaling \$3.1 million at September 30, 2018. The net difference can provide protection from credit loss in addition to the ALLL as future potential charge-offs for an individual loan is limited to the recorded investment plus unpaid accrued interest.

| (Dollars in thousands)<br>September 30, 2018 | Recorded<br>Investment | Unpaid<br>Principal | Difference  |
|--|------------------------|---------------------|-------------|
| Commercial real estate                       | \$906,494              | \$914,503           | \$(8,009 )  |
| Construction, land development, land         | 190,920                | 195,075             | (4,155 )    |
| 1-4 family residential properties            | 194,752                | 196,361             | (1,609 )    |
| Farmland                                     | 177,313                | 180,599             | (3,286 )    |
| Commercial                                   | 1,123,598              | 1,127,844           | (4,246 )    |
| Factored receivables                         | 611,285                | 613,832             | (2,547 )    |
| Consumer                                     | 31,423                 | 31,576              | (153 )      |
| Mortgage warehouse                           | 276,358                | 276,358             | —           |
|  | \$3,512,143            | \$3,536,148         | \$(24,005 ) |

At September 30, 2018 and December 31, 2017, we had on deposit \$54.9 million and \$32.5 million, respectively, of customer reserves associated with factored receivables. These deposits 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 on our consolidated balance sheets.

The following table provides an analysis of the provisions for loan losses, net charge-offs and recoveries, and the effects of those items on our ALLL:

| (Dollars in thousands)                                     | Three Months Ended    |             | Nine Months Ended     |             |
|--|-----------------------|-------------|-----------------------|-------------|
|  | September 30,<br>2018 | 2017        | September 30,<br>2018 | 2017        |
| Balance at beginning of period                             | \$24,547              | \$19,797    | \$18,748              | \$15,405    |
| Loans charged-off:   |                       |             |                       |             |
| Commercial real estate                                     | —                     | —           | (2 )                  | (137 )      |
| Construction, land development, land                       | —                     | —           | —                     | (582 )      |
| 1-4 family residential properties                          | (3 )                  | (1 )        | (17 )                 | (29 )       |
| Farmland   | —                     | —           | (200 )                | —           |
| Commercial   | (4,074 )              | (755 )      | (4,701 )              | (3,833 )    |
| Factored receivables                                       | (228 )                | (136 )      | (928 )                | (1,102 )    |
| Consumer   | (286 )                | (270 )      | (776 )                | (877 )      |
| Mortgage warehouse   | —                     | —           | —                     | —           |
| Total loans charged-off                                    | \$(4,591 )            | \$(1,162 )  | \$(6,624 )            | \$(6,560 )  |
| Recoveries of loans charged-off:                           |                       |             |                       |             |
| Commercial real estate                                     | 103                   | —           | 103                   | —           |
| Construction, land development, land                       | 2                     | —           | 12                    | 7           |
| 1-4 family residential properties                          | 7                     | 23          | 12                    | 42          |
| Farmland   | —                     | —           | —                     | —           |
| Commercial   | 273                   | 929         | 409                   | 1,307       |
| Factored receivables                                       | 8                     | 30          | 52                    | 82          |
| Consumer   | 104                   | 178         | 287                   | 387         |
| Mortgage warehouse   | —                     | —           | —                     | —           |
| Total loans recoveries                                     | \$497                 | \$1,160     | \$875                 | \$1,825     |
| Net loans charged-off                                      | \$(4,094 )            | \$(2 )      | \$(5,749 )            | \$(4,735 )  |
| Provision for (reversal of) loan losses:                   |                       |             |                       |             |
| Commercial real estate                                     | 136                   | 58          | 506                   | 888         |
| Construction, land development, land                       | 244                   | 210         | 376                   | 1,235       |
| 1-4 family residential properties                          | 15                    | 111         | (29 )                 | 16          |
| Farmland   | (6 )                  | (22 )       | 393                   | 69          |
| Commercial   | 6,324                 | (629 )      | 8,895                 | 4,660       |
| Factored receivables                                       | 64                    | 645         | 3,850                 | 1,978       |
| Consumer   | 93                    | 208         | 287                   | 813         |
| Mortgage warehouse   | (67 )                 | (9 )        | (21 )                 | 38          |
| Total provision for loan losses                            | \$6,803               | \$572       | \$14,257              | \$9,697     |
| Balance at end of period                                   | \$27,256              | \$20,367    | \$27,256              | \$20,367    |
| Average total loans held for investment                    | \$3,293,218           | \$2,295,356 | \$2,995,970           | \$2,126,532 |
| Net charge-offs to average total loans held for investment | 0.12 %                | 0.00 %      | 0.19 %                | 0.22 %      |
| Allowance to total loans held for investment               | 0.78 %                | 0.84 %      | 0.78 %                | 0.84 %      |

Quarter to date net loans charged off increased \$4.1 million primarily due to a \$4.0 million charge-off on a single asset based lending relationship during the three months ended September 30, 2018. Refer to the Provision for Loan Losses discussion for further details regarding the charge-off. Remaining charge-off and recovery activity during the periods was insignificant individually and in the aggregate.

Year to date net loans charged off increased \$1.0 million, or 21.4%, primarily due to the aforementioned \$4.0 million charge-off on a single asset based lending relationship during the nine months ended September 30, 2018. This was partially offset by a \$2.7 million charge-off of an individual healthcare finance relationship during the nine months ended September 30, 2017. Remaining charge-off and recovery activity during the periods was insignificant individually and in the aggregate.

## Securities

As of September 30, 2018, we held debt securities classified as available for sale with a fair value of \$356.0 million, an increase of \$105.4 million from \$250.6 million at December 31, 2017. The increase is attributable to the acquisition of \$270.7 million of securities available for sale from FBD and SCC. This increase was offset by the sale of \$123 million of securities during the nine months ended September 30, 2018 which were primarily made up of municipal securities acquired as part of the FBD, SCC and Valley acquisitions. Our available for sale securities can be used for pledging to secure FHLB borrowings and public deposits, or can be sold to meet liquidity needs.

As of September 30, 2018 and December 31, 2017, we held equity securities with a fair value of \$5.0 million. These securities represent investments in a publicly traded Community Reinvestment Act mutual fund and are subject to market pricing volatility. As a result of our adoption of ASU 2016-01, Financial Instruments, on January 1, 2018, equity securities were reclassified from securities available for sale.

As of September 30, 2018, we held investments classified as held to maturity with an amortized cost of \$8.4 million, a decrease of \$0.2 million from \$8.6 million at December 31, 2017. These held to maturity securities represent a minority investment in the unrated subordinated notes of recently issued CLOs managed by Trinitas Capital Management.

The following tables set forth the amortized cost and average yield of our debt securities, by type and contractual maturity:

|                                     | Maturity as of September 30, 2018 |               |                                 |               |                                 |               |                 |               |                |               |
|-------------------------------------|-----------------------------------|---------------|---------------------------------|---------------|---------------------------------|---------------|-----------------|---------------|----------------|---------------|
|                                     | One Year or Less                  |               | After One but within Five Years |               | After Five but within Ten Years |               | After Ten Years |               | Total          |               |
| (Dollars in thousands)              | Amortized Cost                    | Average Yield | Amortized Cost                  | Average Yield | Amortized Cost                  | Average Yield | Amortized Cost  | Average Yield | Amortized Cost | Average Yield |
| U.S. Government agency obligations  | \$28,240                          | 1.53 %        | \$67,862                        | 1.73 %        | \$—                             | —             | \$—             | —             | \$96,102       | 1.67 %        |
| U.S. Treasury notes                 | —                                 | —             | 1,952                           | 1.94 %        | —                               | —             | —               | —             | 1,952          | 1.94 %        |
| Mortgage-backed securities          | 72                                | 6.86 %        | 2,929                           | 2.08 %        | 5,131                           | 2.32 %        | 22,935          | 2.92 %        | 31,067         | 2.75 %        |
| Asset backed securities             | —                                 | —             | 2,634                           | 2.90 %        | 5,560                           | 2.68 %        | 2,609           | 3.43 %        | 10,803         | 2.91 %        |
| State and municipal                 | 47,777                            | 1.59 %        | 49,002                          | 1.90 %        | 37,923                          | 1.92 %        | 10,315          | 1.82 %        | 145,017        | 1.79 %        |
| Corporate bonds                     | 11,873                            | 2.25 %        | 56,436                          | 2.54 %        | 505                             | 2.78 %        | 274             | 5.09 %        | 69,088         | 2.50 %        |
| SBA pooled securities               | —                                 | —             | 41                              | 4.44 %        | 73                              | 4.54 %        | 4,838           | 3.77 %        | 4,952          | 3.79 %        |
| Total available for sale securities | \$87,962                          | 1.66 %        | \$180,856                       | 2.05 %        | \$49,192                        | 2.06 %        | \$40,971        | 2.81 %        | \$358,981      | 2.04 %        |
|                                     | \$—                               | —             | \$—                             | —             | \$3,052                         | 13.04 %       | \$5,351         | 11.03 %       | \$8,403        | 11.80 %       |

Held to maturity  
securities:  
Liabilities

Total liabilities were \$3.920 billion as of September 30, 2018, compared to \$3.107 billion at December 31, 2017, an increase of \$813 million, the components of which are discussed below.

Deposits

Our total deposits were \$3.439 billion as of September 30, 2018, compared to \$2.621 billion as of December 31, 2017, an increase of \$817.7 million. This increase was primarily attributable to the addition of \$674.7 million of deposits as a result of the FBD and SCC acquisitions. The increase in deposits was also due in part to growth in several of our deposit products offset by an intentional reduction in our reliance on the use of public funds during the period. As of September 30, 2018, interest bearing demand deposits, noninterest bearing deposits, money market deposits and savings deposits accounted for 61% of our total deposits, while individual retirement accounts, certificates of deposit, and brokered deposits made up 39% of total deposits. See Note 7 – Deposits in the accompanying condensed notes to consolidated financial statements included elsewhere in this report for details of our deposit balances as of September 30, 2018 and December 31, 2017.

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The following table provides information on the maturity distribution of time deposits with individual balances of \$100,000 to \$250,000 and of time deposits with individual balances of \$250,000 or more as of September 30, 2018:

| (Dollars in thousands)   | \$100,000<br>to<br>\$250,000 | \$250,000<br>and<br>Over | Total     |
|--------------------------|------------------------------|--------------------------|-----------|
| <b>Maturity</b>          |                              |                          |           |
| 3 months or less         | \$109,011                    | \$38,684                 | \$147,695 |
| Over 3 through 6 months  | 76,780                       | 26,549                   | 103,329   |
| Over 6 through 12 months | 150,691                      | 78,586                   | 229,277   |
| Over 12 months           | 85,874                       | 41,624                   | 127,498   |
|                          | \$422,356                    | \$185,443                | \$607,799 |

The following table summarizes our average deposit balances and weighted average rates:

| (Dollars in thousands)          | Three Months Ended<br>September 30, 2018 |                           |               | Three Months Ended<br>September 30, 2017 |                           |               |
|---------------------------------|--|---------------------------|---------------|--|---------------------------|---------------|
|                                 | Average<br>Balance                       | Weighted<br>Avg<br>Yields | % of<br>Total | Average<br>Balance                       | Weighted<br>Avg<br>Yields | % of<br>Total |
| Interest bearing demand         | \$418,226                                | 0.19                      | % 14          | \$312,009                                | 0.17                      | % 15          |
| Individual retirement accounts  | 105,774                                  | 1.27                      | % 4           | 98,713                                   | 1.24                      | % 5           |
| Money market                    | 303,843                                  | 0.78                      | % 11          | 201,462                                  | 0.23                      | % 10          |
| Savings                         | 272,230                                  | 0.09                      | % 9           | 167,908                                  | 0.05                      | % 8           |
| Certificates of deposit         | 793,685                                  | 1.53                      | % 28          | 773,075                                  | 1.22                      | % 38          |
| Brokered deposits               | 384,337                                  | 2.02                      | % 13          | 72,094                                   | 1.69                      | % 4           |
| Total interest bearing deposits | 2,278,095                                | 1.08                      | % 79          | 1,625,261                                | 0.80                      | % 80          |
| Noninterest bearing demand      | 608,245                                  | —                         | 21            | 398,774                                  | —                         | 20            |
| Total deposits                  | \$2,886,340                              | 0.85                      | % 100         | \$2,024,035                              | 0.64                      | % 100         |

| (Dollars in thousands)          | Nine Months Ended<br>September 30, 2018 |                           |               | Nine Months Ended<br>September 30, 2017 |                           |               |
|---------------------------------|---|---------------------------|---------------|---|---------------------------|---------------|
|                                 | Average<br>Balance                      | Weighted<br>Avg<br>Yields | % of<br>Total | Average<br>Balance                      | Weighted<br>Avg<br>Yields | % of<br>Total |
| Interest bearing demand         | \$396,550                               | 0.20                      | % 15          | \$326,798                               | 0.16                      | % 16          |
| Individual retirement accounts  | 105,337                                 | 1.22                      | % 4           | 100,224                                 | 1.20                      | % 5           |
| Money market                    | 281,205                                 | 0.62                      | % 11          | 205,585                                 | 0.23                      | % 10          |
| Savings                         | 251,108                                 | 0.06                      | % 9           | 170,431                                 | 0.06                      | % 8           |
| Certificates of deposit         | 791,400                                 | 1.39                      | % 30          | 767,680                                 | 1.16                      | % 39          |
| Brokered deposits               | 272,997                                 | 1.90                      | % 10          | 69,359                                  | 1.52                      | % 3           |
| Total interest bearing deposits | 2,098,597                               | 0.96                      | % 79          | 1,640,077                               | 0.75                      | % 81          |
| Noninterest bearing demand      | 569,123                                 | —                         | 21            | 388,217                                 | —                         | 19            |
| Total deposits                  | \$2,667,720                             | 0.76                      | % 100         | \$2,028,294                             | 0.61                      | % 100         |

Other Borrowings

## Customer Repurchase Agreements

The following provides a summary of our customer repurchase agreements as of and for the nine months ended September 30, 2018 and the year ended December 31, 2017:

| (Dollars in thousands)                           | September 30,<br>2018 | December<br>31,<br>2017 |
|--|-----------------------|-------------------------|
| Amount outstanding at end of period              | \$ 13,248             | \$ 11,488               |
| Weighted average interest rate at end of period  | 0.03                  | % 0.02 %                |
| Average daily balance during the period          | \$ 8,927              | \$ 12,906               |
| Weighted average interest rate during the period | 0.02                  | % 0.02 %                |
| Maximum month-end balance during the period      | \$ 13,844             | \$ 21,041               |



Our customer repurchase agreements generally have overnight maturities. Variances in these balances are attributable to normal customer behavior and seasonal factors affecting their liquidity positions.

#### FHLB Advances

The following provides a summary of our FHLB advances as of and for the nine months ended September 30, 2018 and the year ended December 31, 2017:

| (Dollars in thousands)                           | September 30,<br>2018 | December<br>31,<br>2017 |
|--|-----------------------|-------------------------|
| Amount outstanding at end of period              | \$ 330,000            | \$ 365,000              |
| Weighted average interest rate at end of period  | 2.21                  | % 1.39                  |
| Average amount outstanding during the period     | 375,995               | 300,451                 |
| Weighted average interest rate during the period | 1.88                  | % 1.05                  |
| Highest month end balance during the period      | 455,000               | 385,000                 |

Our FHLB advances are collateralized by assets, including a blanket pledge of certain loans. At September 30, 2018 and December 31, 2017, we had \$349.6 million and \$231.2 million, respectively, in unused and available advances from the FHLB.

#### Subordinated Notes

On September 30, 2016, we issued \$50.0 million of Fixed-to-Floating Rate Subordinated Notes due 2026 (the “Notes”). The Notes initially bear interest at 6.50% per annum, are payable semi-annually in arrears, to, but excluding, September 30, 2021, and, thereafter and to, but excluding, the maturity date or earlier redemption, interest shall be payable quarterly in arrears, at an annual floating rate equal to three-month LIBOR as determined for the applicable quarterly period, plus 5.345%. We may, at our option, beginning on September 30, 2021 and on any scheduled interest payment date thereafter, redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption.

The Notes are included on our consolidated balance sheet as liabilities; however, for regulatory purposes, the carrying value of these obligations is eligible for inclusion in Tier 2 regulatory capital.

Issuance costs related to the Notes totaled \$1.3 million, including an underwriting discount of 1.5%, or \$0.8 million, and have been netted against the subordinated notes liability on the consolidated balance sheets. The underwriting discount and other debt issuance costs are being amortized using the effective interest method over the life of the Notes as a component of interest expense. The carrying value of the Notes totaled \$48.9 million at September 30, 2018.

#### Junior Subordinated Debentures

The following provides a summary of our junior subordinated debentures as of September 30, 2018:

| (Dollars in thousands)                | Face<br>Value | Carrying<br>Value | Maturity Date  | Interest Rate |
|---------------------------------------|---------------|-------------------|----------------|---------------|
| National Bancshares Capital Trust II  | \$ 15,464     | \$ 12,947         | September 2033 | LIBOR + 3.00% |
| National Bancshares Capital Trust III | 17,526        | 12,528            | July 2036      | LIBOR + 1.64% |
| ColoEast Capital Trust I              | 5,155         | 3,462             | September 2035 | LIBOR + 1.60% |
| ColoEast Capital Trust II             | 6,700         | 4,536             | March 2037     | LIBOR + 1.79% |

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|                                   |          |          |                |               |
|-----------------------------------|----------|----------|----------------|---------------|
| Valley Bancorp Statutory Trust I  | 3,093    | 2,852    | September 2032 | LIBOR + 3.40% |
| Valley Bancorp Statutory Trust II | 3,093    | 2,641    | July 2034      | LIBOR + 2.75% |
|                                   | \$51,031 | \$38,966 |                |               |

These debentures are unsecured obligations and were issued to trusts that are unconsolidated subsidiaries. The trusts in turn issued trust preferred securities with identical payment terms to unrelated investors. The debentures may be called by the Company at par plus any accrued but unpaid interest; however, we have no current plans to redeem them prior to maturity. Interest on the debentures is calculated quarterly, based on a contractual rate equal to three month LIBOR plus a weighted average spread of 2.24%. As part of the purchase accounting adjustments made with the National Bancshares, Inc. acquisition on October 15, 2013, the ColoEast acquisition on August 1, 2016, and the Valley acquisition on December 9, 2017, we adjusted the carrying value of the junior subordinated debentures to fair value as of the respective acquisition dates. The discounts on the debentures will continue to be amortized through maturity and recognized as a component of interest expense.

The debentures are included on our consolidated balance sheet as liabilities; however, for regulatory purposes, these obligations are eligible for inclusion in regulatory capital, subject to certain limitations. All of the carrying value of \$39.0 million was allowed in the calculation of Tier I capital as of September 30, 2018.

## Capital Resources and Liquidity Management

### Capital Resources

Our stockholders' equity totaled \$616.6 million as of September 30, 2018, compared to \$391.7 million as of December 31, 2017, an increase of \$224.9 million. Stockholders' equity increased during this period primarily due to \$192.1 million of net proceeds from the April 12, 2018 common stock offering previously discussed, and net income for the period of \$33.6 million. Offsetting these increases were dividends paid on our preferred stock.

### Liquidity Management

We define liquidity as our ability to generate sufficient cash to fund current loan demand, deposit withdrawals, or other cash demands and disbursement needs, and otherwise to operate on an ongoing basis.

We manage liquidity at the holding company level as well as that of our bank subsidiary. The management of liquidity at both levels is critical, because the holding company and our bank subsidiary have different funding needs and sources, and each are subject to regulatory guidelines and requirements which require minimum levels of liquidity. We believe that our liquidity ratios meet or exceed those guidelines and that our present position is adequate to meet our current and future liquidity needs.

Our liquidity requirements are met primarily through cash flow from operations, receipt of pre-paid and maturing balances in our loan and investment portfolios, debt financing and increases in customer deposits. Our liquidity position is supported by management of liquid assets and liabilities and access to other sources of funds. Liquid assets include cash, interest earning deposits in banks, federal funds sold, securities available for sale and maturing or prepaying balances in our investment and loan portfolios. Liquid liabilities include core deposits, federal funds purchased, securities sold under repurchase agreements and other borrowings. Other sources of funds include the sale of loans, brokered deposits, the issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities and the issuance of common securities. For additional information regarding our operating, investing and financing cash flows, see the Consolidated Statements of Cash Flows provided in our consolidated financial statements.

In addition to the liquidity provided by the sources described above, our subsidiary bank maintains correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. As of September 30, 2018, TBK Bank had unsecured federal funds lines of credit with seven unaffiliated banks totaling \$137.5 million, with no amounts advanced against those lines at that time.

### Regulatory Capital Requirements

Our capital management consists of providing equity to support our current and future operations. We 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. For further information regarding our regulatory capital requirements, see Note 11 – Regulatory Matters in the accompanying condensed notes to the consolidated financial statements included elsewhere in this report.



## Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of September 30, 2018. The amount of the obligations presented in the table reflects principal amounts only and excludes the amount of interest we are obligated to pay. Also excluded from the table are a number of obligations to be settled in cash. These excluded items are reflected in our consolidated balance sheet and include deposits with no stated maturity, trade payables, and accrued interest payable.

|  | Payments Due by Period - September 30, 2018 |                    |                  |                                 |                                |
|--|---|--------------------|------------------|---------------------------------|--------------------------------|
|  |   | After<br>One       | After<br>Three   | but<br>within<br>Three<br>Years | but<br>within<br>Five<br>Years |
| (Dollars in thousands)                   | Total                                       | Less               |                  |                                 |                                |
| Customer repurchase agreements           | \$13,248                                    | \$13,248           | \$—              | \$—                             | \$—                            |
| Federal Home Loan Bank advances          | 330,000                                     | 300,000            | —                | —                               | 30,000                         |
| Subordinated notes                       | 50,000                                      | —                  | —                | —                               | 50,000                         |
| Junior subordinated debentures           | 51,031                                      | —                  | —                | —                               | 51,031                         |
| Operating lease agreements               | 21,863                                      | 3,126              | 6,000            | 5,266                           | 7,471                          |
| Time deposits with stated maturity dates | 1,345,907                                   | 1,052,802          | 239,390          | 47,002                          | 6,713                          |
| <b>Total contractual obligations</b>     | <b>\$1,812,049</b>                          | <b>\$1,369,176</b> | <b>\$245,390</b> | <b>\$52,268</b>                 | <b>\$145,215</b>               |

## Off-Balance Sheet Arrangements

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. For further information, see Note 9 – Off-Balance Sheet Loan Commitments in the accompanying condensed notes to the consolidated financial statements included elsewhere in this report.

## Critical Accounting Policies and Estimates

Our accounting policies are fundamental to understanding our management's discussion and analysis of our results of operations and financial condition. We have identified certain significant accounting policies which involve a higher degree of judgment and complexity in making certain estimates and assumptions that affect amounts reported in our consolidated financial statements. The significant accounting policy which we believe to be the most critical in preparing our consolidated financial statements is the determination of the allowance for loan and lease losses. Since December 31, 2017, there have been no changes in critical accounting policies as further described under "Critical Accounting Policies and Estimates" and in Note 1 to the Consolidated Financial Statements in our 2017 Form 10-K.

## Recently Issued Accounting Pronouncements

See Note 1 – Summary of Significant Accounting Policies in the accompanying condensed notes to consolidated financial statements included elsewhere in this report for details of recently issued accounting pronouncements and

their expected impact on our consolidated financial statements.

#### Forward-Looking Statements

This document contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would” and “outlook,” or the negative version of those other comparable of a future or forward-looking nature. These forward-looking statements are not historical facts and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but are not limited to, the following:

- business and economic conditions generally and in the bank and non-bank financial services industries, nationally and within our local market areas;
- our ability to mitigate our risk exposures;
- our ability to maintain our historical earnings trends;
- risks related to the integration of acquired businesses (including our acquisitions of First Bancorp of Durango, Inc., Southern Colorado Corp., the operating assets of Interstate Capital Corporation and certain of its affiliates, Valley Bancorp, Inc., and nine branches from Independent Bank in Colorado) and any future acquisitions;
- our ability to successfully identify and address the risks associated with our recent, pending and possible future acquisitions, and the risks that our prior and planned future acquisitions make it more difficult for investors to evaluate our business, financial condition and results of operations, and impairs our ability to accurately forecast our future performance;
- changes in management personnel;
- interest rate risk;
- concentration of our factoring services in the transportation industry;
- credit risk associated with our loan portfolio;
- lack of seasoning in our loan portfolio;
- deteriorating asset quality and higher loan charge-offs;
- time and effort necessary to resolve nonperforming assets;
- inaccuracy of the assumptions and estimates we make in establishing reserves for probable loan losses and other estimates;
- lack of liquidity;
  - fluctuations in the fair value and liquidity of the securities we hold for sale;
- impairment of investment securities, goodwill, other intangible assets or deferred tax assets;
- our risk management strategies;
- environmental liability associated with our lending activities;
- increased competition in the bank and non-bank financial services industries, nationally, regionally or locally, which may adversely affect pricing and terms;
- the accuracy of our financial statements and related disclosures;
- material weaknesses in our internal control over financial reporting;
- system failures or failures to prevent breaches of our network security;
- the institution and outcome of litigation and other legal proceedings against us or to which we become subject;
- changes in carry-forwards of net operating losses;
- changes in federal tax law or policy;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations, such as the Dodd-Frank Act and their application by our regulators;
- governmental monetary and fiscal policies;
- changes in the scope and cost of FDIC, insurance and other coverages;
- failure to receive regulatory approval for future acquisitions; and
- increases in our capital requirements.

The foregoing factors should not be construed as exhaustive. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.





Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

### ITEM 3

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

##### Asset/Liability Management and Interest Rate Risk

The principal objective of our asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing net income and preserving adequate levels of liquidity and capital. The Board of Directors of our subsidiary bank has oversight of our asset and liability management function, which is managed by our Chief Financial Officer. Our Chief Financial Officer meets with our senior executive management team regularly to review, among other things, the sensitivity of our assets and liabilities to market interest rate changes, local and national market conditions and market interest rates. That group also reviews our liquidity, capital, deposit mix, loan mix and investment positions.

As a financial institution, our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the fair value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair values.

We manage our exposure to interest rates primarily by structuring our balance sheet in the ordinary course of business. We do not typically enter into derivative contracts for the purpose of managing interest rate risk, but we may elect to do so in the future. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

We use an interest rate risk simulation model to test the interest rate sensitivity of net interest income and the balance sheet. Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in projected net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, and reinvestment and replacement of asset and liability cash flows. We also analyze the economic value of equity as a secondary measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the fair value of assets less the fair value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of all future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to our future earnings and is used in conjunction with the analyses on net interest income.

The following table summarizes simulated change in net interest income versus unchanged rates as of September 30, 2018 and December 31, 2017:

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|                   | September 30,<br>2018 |       | December 31,<br>2017 |         |
|-------------------|-----------------------|-------|----------------------|---------|
|                   | Months                |       | Months               |         |
|                   | Following             |       | Following            |         |
|                   | 12 Months             | 3-24  | 12 Months            | 3-24    |
| +400 basis points | 11.3 %                | 9.6 % | 4.8 %                | 0.7 %   |
| +300 basis points | 9.0 %                 | 7.8 % | 3.9 %                | 0.9 %   |
| +200 basis points | 6.7 %                 | 6.1 % | 2.7 %                | 0.6 %   |
| +100 basis points | 4.3 %                 | 4.3 % | 1.7 %                | 0.6 %   |
| Flat rates        | 0.0 %                 | 0.0 % | 0.0 %                | 0.0 %   |
| -100 basis points | (0.8 %)               | 0.3 % | (2.2 %)              | (2.5 %) |

The following table presents the change in our economic value of equity as of September 30, 2018 and December 31, 2017, assuming immediate parallel shifts in interest rates:

|                   | Economic Value of Equity at Risk (%) |    |                   |    |
|-------------------|--------------------------------------|----|-------------------|----|
|                   | September 30,<br>2018                |    | December 31, 2017 |    |
| +400 basis points | 12.0                                 | %  | 11.9              | %  |
| +300 basis points | 10.3                                 | %  | 10.5              | %  |
| +200 basis points | 8.0                                  | %  | 8.1               | %  |
| +100 basis points | 4.6                                  | %  | 4.9               | %  |
| Flat rates        | 0.0                                  | %  | 0.0               | %  |
| -100 basis points | (6.2                                 | %) | (9.6              | %) |

Many assumptions are used to calculate the impact of interest rate fluctuations. Actual results may be significantly different than our projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. The computations of interest rate risk shown above do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates, and actual results may also differ due to any actions taken in response to the changing rates.

As part of our asset/liability management strategy, our management has emphasized the origination of shorter duration loans as well as variable rate loans to limit the negative exposure to a rate increase. We also desire to acquire deposit transaction accounts, particularly noninterest or low interest-bearing non-maturity deposit accounts, whose cost is less sensitive to changes in interest rates. We intend to focus our strategy on utilizing our deposit base and operating platform to increase these deposit transaction accounts.

#### ITEM 4

##### CONTROLS AND PROCEDURES

###### Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of the end of the period covered by this report.

###### Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time we are a party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

### Item 1A. Risk Factors

There have been no other material changes in the Company's risk factors from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits (Exhibits marked with a “†” denote management contracts or compensatory plans or arrangements)

- 3.1 Second Amended and Restated Certificate of Formation of the Registrant, effective November 7, 2014, incorporated by reference to Exhibit 3.1 to Form 8-K filed with the SEC on November 13, 2014.
- 3.2 Certificate of Amendment to Second Amended and Restated Certificate of Formation of Triumph Bancorp, Inc., incorporated by reference to Exhibit 3.1 to Form 8-K filed with the SEC on May 10, 2018.
- 3.3 Second Amended and Restated Bylaws of the Registrant, effective November 7, 2014, incorporated by reference to Exhibit 3.2 to Form 8-K filed with the SEC on November 13, 2014.
- 3.4 Amendment No. 1 to Second Amended and Restated Bylaws of Triumph Bancorp, Inc., incorporated by reference to Exhibit 3.2 to Form 8-K filed with the SEC on May 10, 2018.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 XBRL Instance Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRIUMPH BANCORP, INC.  
(Registrant)

Date: October 19, 2018 /s/ Aaron P. Graft  
Aaron P. Graft  
President and Chief Executive Officer

Date: October 19, 2018 /s/ R. Bryce Fowler  
R. Bryce Fowler  
Chief Financial Officer